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GENERAL

Article Reviews Western Economic Policies

94CM0054A Beijing XIANDAI GUOJI GUANXI
[CONTEMPORARY INTERNATIONAL RELATIONS]
in Chinese No 47, 20 Sep 93 pp 30-33

[Article by Deng Zhiqing (6772 1807 3237): "Several Major Revisions in Western Economic Policy Thoughts"]

[Text] In recent years, because of the protracted economic recession and because of increasingly intense international competition, many large Western nations have made major revisions in their economic theories and policies. With President Clinton's election in the United States, the policy stand that advocates active government intervention in the economy is on the ascendant, replacing the 1980's laissez-faire as advocated by former British Prime Minister Thatcher and former US President Reagan.

1. Emphasize Stimulating Economic Growth; Besides Monetary Policies, Attention Is Focused on Fiscal Policies, Especially Direct Government Investments

It began in the United States, Canada, and Britain and was followed by Japan and Germany—nations have gone into economic recession since entering the 1990's. To stimulate economic recovery, many have lowered the interest rates again and again. For example, in the United States, the Federal Reserve has lowered the federal fund and discount rates 17 times between 1990 and 1992. The federal fund rate has dropped from 10 percent to 3.25 percent and the discount rate has fallen to 3 percent, the lowest in 27 years. Even Germany, which has always made controlling inflation its primary economic goal, has been under pressure from other nations and has lowered its interest rates six times since last September, and at the end of July, its discount rate had dropped to 6.75 percent and its collateralized loan rates had fallen to 7.75 percent. However, because of the 1980's monetary overexpansion, enterprises and individuals in the West are busy paying off old debts now that interest rates are down and are not increasing investment or spending, and therefore this monetary policy has not done much to stimulate the economy. For this reason, the United States, Europe, and Japan are seeking help from fiscal measures and increasing government spending to promote economic growth. Japan took the lead last August in announcing a 10.7 trillion yen (\$86 billion) government spending plan. This April, it further proposed an unprecedented 13.2 trillion yen (\$117 billion) package to combat recession: One-half of the money will be invested in the construction of public facilities. The European Community ratified an economic revitalization plan worth 42 billion in Eurocurrency at a summit meeting in Edinburgh last year and at the financial and economic ministers meeting this April, and in the summit meeting held in Copenhagen this

June, they decided to add another 3 billion Eurocurrency's worth of investments. Primarily, they intend to increase government spending on infrastructure, encourage private investments, and help medium and small enterprises. To help the U.S. economy get out of the economic doldrums of the last several years, upon taking office, President Clinton unveiled a plan to use government investments to stimulate economic growth. The short-term measures include government investments of \$28.3 billion this and next year. The money will be spent on the construction of public facilities, extending unemployment insurance, creating jobs, and providing tax credits to businesses. Although the Congress has only approved a very small portion of that plan, the plan itself is an indication that **when it comes to "Clintonomics," the government will have a bigger role.**

Using government investments to stimulate economic growth is not a new theory or political stand. If we look at the history of development of this century's Western economic theories and economic policies, we will find that the period before the crisis of the 1930's was dominated by Marshall's neoclassical theory of free market economy. The great depression of the 1930's, a crisis of unprecedented depth, protraction, and scale, pronounced the bankruptcy of laissez-faire's claim that market mechanisms could achieve full employment and stability. Keynesianism which emphasized state interventions gradually swept the West and became the main theoretical basis for economic policies in many countries. Keynesian theory on controlling effective demand led to widespread state interventions, resulting in "big government, big spending, high taxes, and expensive welfare." Although it helped the Western developed nations achieve a high rate of economic growth after the War and through the 1960's, by the mid-1970's, its defects became increasingly obvious, manifesting themselves in the phenomenon of "stagflation," a condition of prolonged economic stagnation accompanied by runaway inflation. The late 1970's and early 1980's marked the rise of a new kind of laissez-faire in the form of monetarism as advocated by British Prime Minister Thatcher and in the supply-side economics which former U.S. President Reagan firmly believed in. "Thatcherism" and "Reaganomics" temporarily halted the stagflation in the West and helped sustain a fairly long period of slow growth, but they also left behind the ill consequences of big deficits, large debts, and high unemployment rate. Eventually in the early 1990's, another serious post-war economic recession erupted, again putting the theories of laissez-faire in jeopardy. The Bush administration, which inherited "Reaganomics," had no remedies and eventually lost the election. With the Democrats in the White House, the "anticlassical" school of Western economics is now on center stage. Of course, "Clintonomics" is not a complete revival of Keynesianism, and Clinton himself said that he has chosen a "third road" between Keynesianism and laissez-faire: While increasing government intervention, he wants to streamline government and reform the welfare system to cut budget deficits. "Clintonomics" in fact represents a new

direction in today's Western economic policies, that is, **Keynesianism is dead, and laissez-faire has gone through its rise and fall. Efforts must be made to combine the two to develop a new kind of economic theory and create new mechanisms.**

II. Putting Industrial Policy on the Government's Policy Agenda

Industrial policy is the policy a government formulates to directly interfere in the development of some industries as a way to supplement the market's inadequate role. In Europe and the United States, because they believe in a relatively free economy, unless national security is threatened, they generally do not advocate government interference in industrial development. They believe that the government's choice of industries is often influenced by political interests while the rise and fall of industries should be determined by the market. Although some European countries and the United States have at times adopted policies to help certain industries, they have mostly been in the form of assistance and not direct promotion, and they have never been systematic. Since the late 1980's, the end of the Cold War has made economic competition, especially competition in science and technology, the focal point of international relationships. Amid the intense competition, Japan, which has a clear industrial policy, has seized the upper hand, and increasingly European and American industries are unable to compete. This is demonstrated by the large trade deficits against Japan and the fact that they are gradually losing ground to Japanese advanced technologies. In 1992, the United States ran up nearly \$50 billion in trade deficits against Japan, which accounted for more than half of its foreign trade deficits. The European Community also has more than \$30 billion in trade deficits against Japan. Faced with Japan's overwhelming offensive, and upon studying the Japanese government's success with the development of its automobile, electronics, and computer industries, advocates of European and U.S. industrial policies believe that the "market economy by itself cannot nurture industries deemed vital to the national economy, and therefore the government must intervene." To win in future economic competition and come out ahead in international competition, European and American governments have formulated important industrial development policies and plans, the most important of which are:

1. Setting up specialized government agencies to lead and coordinate national scientific research work. U.S. President Clinton has already proposed the setting up of a federal science, engineering, and technology coordination committee to plan government-funded R&D projects. The committee will be headed by the President's science and technology adviser and chairman of the White House Science and Technology Policy Office. The European Community Committee proposed a new set of scientific research guiding principles in March of this year which suggested setting up a technical assessment agency responsible for coordinating regional,

national, and European Community tasks to strengthen the integration of their scientific and technical work.

2. Putting the emphasis on high-tech industries. With the constant development of science and technology, what determines the comparative advantage of a nation in terms of its ability to compete is no longer natural resources but scientific and technological resources. Therefore, a policy on science and technology has become the core of every nation's industrial policy. U.S. President Clinton pointed out again and again that "the key to a nation's economic success lies in taking the lead in technological invention and commercialization." Soon after he took office, he went to the Silicon Valley and announced that the government will try to form a partnership with industries to build more companies like those in the Silicon Valley which will introduce even more new technologies to help the United States maintain its lead. He also proposed specific plans to support the computer and telecommunications and others in the information industry and develop high-speed trains and a new generation of automobiles. In the Fourth General Research and Development Plan (1994-1998) proposed by the European Community in April of this year, scientific research outlay was increased to 13.3 billion in Eurocurrency, which more than doubled that under the Third Plan. Specifically, three-quarters of the funds will be spent on information and telecommunications technologies, industrial technologies, environmental science, life science, and energy industry.

3. Increasing the propagation and application of the results of R&D. Superiority in basic science and technology research is only potential ability to compete. To achieve real capability, the results of advanced science and technologies must find commercial applications. Therefore, while science and technology policy is the focal point of any industrial policy, the commercialization of the results of R&D is the focal point of any science and technology policy. The major policies most nations have adopted today are: A) Making R&D projects more practical. The United States has identified that the focus of federal R&D projects is on new technologies of significance to economic growth and has removed the word "Defense" from DARPA [Defense Advanced Research Projects Agency], changing it to ARPA, to put the emphasis on civilian technology research. The European Community meanwhile is prepared to allocate 600 million in Eurocurrency over the next few years to fund the assessment, development, and application of R&D results. B) Increasing the exchange of information between government and civilians. The United States will open up its national laboratories to civilians and is going to raise \$80 billion before 1997 to set up an information network covering the nation's 50 states, so as to make sure that the government can play a more effective role in coordinating the propagation of information nationwide and in transferring the results of R&D. C) Providing financial and material support to the development of civilian R&D institutions. The United States has estimated that this step will cost the government an additional \$6 billion over the next 4 years. To

guide civilian enterprises in the development and utilization of advanced technologies, the U.S. government has also decided to set up a "Critical Technologies Research Institute" to turn the results of some R&D projects, such as numerically controlled machine tools and robotics, into products that can compete internationally within the next two to three years.

4. Emphasizing education and training. To improve the workers' technical skills so as to increase enterprise productivity and competitiveness, Europe and the United States have implemented educational reform and have raised the level of basic knowledge while adopting various measures to enhance the workers' professional training. In the EC's Fourth Science and Research Development Plan, for the first time, the importance of education and training was stressed, and 785 million in Eurocurrency was allocated to education. "Clintonomics" even emphasizes "putting people first." The federal government plans to spend \$60 billion in the next four years on raising educational standards and training workers. In his new science and technology policy, President Clinton proposed implementing an education and training program to make sure that all American workers have a chance to continue their education. To make education and training more technology-oriented, the government will support the development of computers and telecommunications equipment used in schools and for professional training in enterprises.

In addition, they have adopted active foreign trade policies to create an environment of "fair" competition, and internally they have amended their antitrust laws to encourage enterprises to join forces to meet foreign competition.

III. Trade Management Has Become the Theme of the West's Trade Policies

As the Western nations gradually put their industrial policies into effect, they also make drastic changes in their trade policies. Since the end of the War, the world trade system has been dominated by the General Agreement on Tariffs and Trade [GATT] whose purpose is to advance free trade. Despite the constant trade conflicts among nations, up through the Bush administration, free trade has been the main theme. Since President Clinton took office, however, he has pursued a more aggressive trade policy than his predecessors. He fights trade protectionism on the one hand and emphasizes fair trade on the other hand. Analysts believe that **the developed nations, led by the United States, are changing their trade policies from free trade to managed trade.** Its characteristics are:

1. More trade conflicts resulting from efforts to capture "fair" trade opportunities. Unlike protectionism's building of barriers to keep out foreign competition or the policy of non-intervention under laissez-faire, managed trade advocates highly competitive international trade, that is, it supports opening up the markets but meanwhile it seeks "fair" trade opportunities and

emphasizes active government participation. Accordingly, while the Western governments continue to attach importance to mechanisms of multilateral cooperation, they often adopt unilateral measures of sanctions and retaliation. As soon as Clinton took office, he immediately adopted an aggressive trade policy. On 27 January, the Commerce Department announced the imposition of punitive tariffs on steel materials imported from 19 countries including those in Europe and Japan. Subsequently, it put pressure on Europe and Japan regarding government contracts and the aerospace, semiconductor, and automobile industries and so on. At a US-Japan summit meeting, President Clinton directly asked Japan to formulate specific goals to open up its markets. Meanwhile, Europe and Japan have been waging a tit-for-tat battle. On 28 May, the United States announced a ban on several EC companies from bidding on U.S. federal government projects. In retaliation, at the 12 nation EC foreign minister meeting held on 8 June, U.S. companies were banned from bidding on EC member nation projects. Japan has also openly criticized the United States, saying that "using managed trade measures and unilateral threats will not resolve its trade balance problems." All these are attributable to the fact that since the end of the Cold War, economic security has become the focal point of foreign relations for all nations. President Clinton, who has made revitalizing the U.S. economy his primary administrative goal, has put opening up foreign markets as his foreign policy goal. His foreign policy clearly puts economics above all else. In a series of meetings with heads of states since he took office, Clinton has without exception put economic and trade issues first. Because of uneven economic and trade development, and adding the effects of the recession, it is expected that economic and trade conflicts among the United States, Europe, and Japan will further intensify.

2. More non-tariff trade barriers. Under GATT, nations have gradually lowered their tariffs. Today, the developed nations are imposing an average of 5 percent tariff on manufactured goods, and the developing nations' average tariff is only around 15 percent. For this reason, non-tariff trade barriers are becoming increasingly important, and governments too are playing an increasingly bigger role. Non-tariff barriers fall into five main categories. Besides the usual voluntary export limits, import quotas, and price controls, there are quasi tariff measures and administrative measures. The former measures refers to taxes imposed for the purpose of raising the price of imports. They include tariff quotas and seasonal tariffs. The latter refers to administrative measures to control the import of sensitive commodities. They primarily include the checking and monitoring of import prices and quantity and antidumping and antisubsidy measures, and specifically antidumping measures are most common. Based on GATT statistics, from July 1989 to June 1990, there were 96 antidumping cases in the international markets, but between January 1991 to June 1992, there were 237 cases. Some experts believe that antidumping has become a hidden EC industrial policy. Frequent antidumping activities have

jeopardized GATT's success in reducing tariffs. It is estimate that if we add the antidumping tax, the average U.S. tariff on manufactured goods is 23 percent and not the nominal 6 percent.

3. The formation of regional economic blocs increases bilateral and regional cooperation. With the inauguration of the unified European market, the signing of NAFTA, and the emergence of economic cooperation mechanisms at different levels throughout Asia, the world economy is gradually separated into three major economic blocs comprised of America, Europe, and Asia. Because these three economic blocs control the absolute majority of world trade, regional economic blocs will dominate the development of trade policies of all nations. Currently, there is no consensus on what effects regional economic blocs will have on the world economy and on world trade, but one point is certain: The development of regional economic blocs will cause

nations' trade policies to change from the kind of multilateralism advocated by GATT to those extending mutual benefits on a bilateral or regional basis. Most developing nations which have been excluded from the three major blocs will be at a disadvantage.

4. The scope of commodity management widens. With the constant improvement in the mix of products being traded, more and more products are put under trade management. European antidumping measures which included products such as ethanol, cement, and aspirin have expanded to cover forklifts and computers. The United State's agricultural product, automobile, steel, and semi-conductor industries are constantly putting pressure on the government for protection. In the 1990's, managed products not only will include labor intensive products and agricultural products but will also include labor and services and high tech products. The developed nations will especially stress protection of intellectual property rights. The developing nations will face increasingly greater pressure.

Xu Jiatun's Hong Kong Memoirs on British Strategy

94CM00073A Hong Kong LIEN HO PAO in Chinese
23, 24 Jun 93

[Installments No 50 and 51 of the serialized memoirs of Xu Jiatun (6079 1367 1470): "Xu Jiatun's Hong Kong Memoirs"]

[23 Jun p 2]

[Text] Return Means "Returning Government to China," Not "Returning Government to the People"; Britain Wants Radical Change in 13 Years, No Change in 50 Years

Hong Kong currently has a colonial type of government. The governor, appointed by the British monarch, has supreme ruling power, so in reality the Hong Kong Government is an autocracy with the governor acting as dictator. The Executive Council and Legislative Council are nothing more than consulting bodies; the latter is not a true lawmaking body. The Hong Kong Government bears no resemblance to that in Britain, where power is divided among the three branches of government for checks and balances.

Both the Green Paper and White Paper made it clear what the British are up to: An attempt to foist on Hong Kong what it did in its other colonies, namely decolonization. But Hong Kong is different from other British colonies. It is part of China territorially, so there is no question of its becoming independent. Britain should return to China the Chinese territory it had invaded. It should return the government to China, not to the people of Hong Kong. As for returning the government to the people, that would be up to the Chinese authorities.

In the Green Paper, the British were still taking a go-slow approach. In the White Paper, however, they were trying to speed things up. About elections to the Legislative Council, for instance, the proposal was to advance to 1985 what was originally scheduled for 1988, that is, three years earlier. Under the Green Paper, there would be six elected seats on the council in 1984 and 1985 and 12 by 1988. The White Paper, on the other hand, called for 12 elected seats.

In its debate on the government report with a number of Legislative Council members such as Dame Lydia Dunn, the Hong Kong British government also proposed setting up a ministerial system. It suggested that the government reassess the central organization, take steps to put together a ministerial system, something similar to what they had in the United States, and give the legislative body decision making power. The idea was to remove the decision making power currently held by the Executive Council, actually the governor, and hand it over to the legislature. That would change the present government framework fundamentally.

Many people in Hong Kong were pleased with the British Government's relentless push for a representative

system in Hong Kong and its move to change the local political framework drastically. Mostly these people had no confidence in China. Many other people, a majority of them from the upper and middle to upper crusts of society, were also concerned.

The current issue of the magazine JIUSHI NIANDAI published two interviews, one with the senior unofficial member of the Executive Council, Zhong Shiyuan [6945 1102 337], and the other with a high-ranking official about to retire, Secretary for Home Affairs Li Dunyi [7812 2415 5030]. Their conversations spoke volumes.

According to Zhong Shiyuan, when China said things would not change for 50 years, it did not mean there would be no change from the way things would be in 1997, but from the existing state of affairs. So he had three worries. First, would Hong Kong really be run by the people of Hong Kong, or would it be run by Beijing? Second, how can we ensure true non-intervention? Is it like the headquarters telling the manager of a branch office there would be no intervention? Third, can China guarantee that its open policy would remain in place and that it would not go back to its ultra-leftist line? Hong Kong had lost the first round, he said, so there was no reason why Hong Kong should keep the form of organization of the colonial government. Instead, it should adopt a political system of democratic elections. It should spend the three years switching to a representative system.

Zhong Shiyuan disclosed two other things. First, he realized full well that when China said there would be no change for 50 years, it meant there would be no change from the existing situation, not the conditions in 1997. Be that as it may, they wanted to change the existing situation in 13 years. Second, how? A political system of popular elections.

What Zhong Shiyuan said made it clear that the British strategy toward China's takeover of Hong Kong had changed. Executive Council members were kept abreast of what was going on in every round of the Sino-British talks. Many times either their opinions reflected those of the Hong Kong Government or they saw eye to eye with the latter.

Li Dunyi was even more blunt. He said unequivocally, "Times have changed. We need to move from one era to the next. The way things are, the governor is appointed by people outside Hong Kong. We hope they will treat the people well, but they may turn out to be bad guys. I don't think anybody wants to see this situation continue in the next 13 years, all the way to the transfer of power. That is why we must switch to another system of government, specifically a legislature created through elections and an executive body that is held accountable to the legislature." He told the people of Hong Kong, "It is up to you from now on." The interviewer, JIUSHI NIANDAI chief editor Li Yi [2621 1837], asked him, "In the past the government has always shied away from changing the political system, even contending that few

local citizens wanted to see a change in the system. Now it is pushing for change, radical change, in the political system." Referring to this inconsistency, Lidunyi said, "How can we justify it?" Li Yi then asked, "You had no choice under the circumstances?" He answered, "Absolutely not." Li Yi asked, "In the past some government officials kept telling us, 'Democracy is not the only good system.' Indeed we don't have a democratic system..." Li Dunyi said, "That's right. Things were more quiet before there were any politics."

As a high-ranking official in the Hong Kong Government, Li Dunyi was privy to insider information even though he was about to retire. What he said proved that Britain had changed its strategy in its maneuverings with China and awkwardly exposed the hypocrisy of the British government when it declared its intent to "return government to the people." An article at the time said, "Britain wants to make radical change in the next 13 years but demands no change for 50 years." [Installment No. 50]

[24 Jun p 2]

Britain Jumps the Gun on Political Reform; First Press Conference Touches Off Controversy

At the beginning we did not fully understand the matter. We only knew that Britain wanted to introduce a representative system but had no inkling of its desire for radical change. I was not sure about the situation in Beijing, but at least that was the case in Hong Kong. When Beijing said, "No comment," we echoed it. In response to a reporter's question, I added, "This has to do with the British Government." Later Beijing picked up this line, saying, "This is a matter for the British Government. We have assumed no such obligation." Perhaps taking this as a sign of Chinese acquiescence, more and more Britain acted as though what it was doing was "inevitable."

Based on information from all sources, particularly the statement "radical change in 13 years, no change in 50 years," we concluded that the British Government had indeed changed its strategy toward Hong Kong's return to China. Its jumping the gun on political reform for Hong Kong was all in all a premeditated move, a tangible expression of its assertions that it would continue its ties with Hong Kong beyond 1997 to protect its interests. It might continue to play the "public opinion card," even turning it into the "democracy card," and advanced the plan in the Sino-British Joint Declaration to reform the governmental system of the special administrative region after 1997. It might sell its political reform plan to the Hong Kong people as an example of British benevolent rule for Hong Kong in order to win the locals' goodwill and support. At the same time, its actions would further divide society, helping the Hong Kong British authorities nurture and develop pro-British forces which could be relied on to continue to rule Hong Kong after 1997 as a regent of London even in the absence of British rule. At my request Ji Pengfei [1213

7720 7378] called a meeting to discuss this matter. The meeting was attended by leaders from the Hong Kong and Macao Affairs Office, the Ministry of Foreign Affairs, and the Foreign Affairs Office.

By then the Chinese Ministry of Foreign Affairs had already made representations to Britain, demanding that the switch to a representative system be consistent with the future basic law for Hong Kong and not affect the smooth transition in 1997. The British had not made any formal response by the time the meeting was held. At the meeting we speculated that Britain might try to bring about another kind of transition, that by speeding up reform it might create a fait accompli which the basic law must live with. By effecting radical change in 13 years while demanding no change for 50 years, it would in effect go back on its commitments under the Sino-British Joint Declaration. This was something China could not accept and must do its best to prevent. We were also aware that the Green Paper and White Paper had whetted the appetite for democracy among some people in society. If there was absolutely no change in 13 years, these people would be disappointed. There was also the need to help the British find a way to exit gracefully. In accordance with Deng Xiaoping's "step by step" approach, any move affecting the political system must be incremental and cautious.

At the meeting I told Ji Pengfei that I had promised reporters in Hong Kong that I would hold a press conference upon my return from Beijing. Should they ask me what was discussed at the meeting, I said to Ji Pengfei, I would respond in accordance with the spirit of the conference. Ji Pengfei nodded and did not offer any objection.

On 21 November I held a press conference at the XINHUA NEWS AGENCY Hong Kong branch, the very first in my life. Both TV networks covered the event live.

The moderator, Yang Qi [2799 1142], asked the reporters to present the questions in writing so that I could address them collectively after they were collected and assembled.

The press conference was about to end when a female reporter from a radio station suddenly posed this question, "What is most essential to maintaining prosperity and stability in Hong Kong? What may happen now that would undermine such prosperity and stability?"

Essentially this was how I responded, "The main thing is to proceed firmly, comprehensively, and substantively in accordance with the Sino-British Joint Declaration. If we depart from the provisions in the declaration, we may be undermining the declaration." "These days we can see some people are not operating in accordance with the document. We cannot but keep a close eye on them." "If there is any unexpected change, this must be it." The reporter shot back with this follow-up question, "Who

really is not operating in accordance with the document?" I laughed, "I can't tell you now. The time is not quite right yet."

Deputy director Chen Baijian [7115 0130 1017] of the XINHUA NEWS AGENCY Hong Kong branch, who accompanied me to the press conference, said, "We all have an idea as to who is not operating in accordance with the document."

At this point I had already been fielding questions for over an hour; my glasses had fogged up, so I took them off to wipe them. I held them in my right hand and picked up a copy of the Sino-British Joint Declaration with my left hand, gesturing and talking at the same time. In photographs and on the TV screen I came across as quite emotional.

My public acknowledgement of the existing rift between China and Britain touched off a chain of reactions,

dubbed by the Hong Kong media as the "document controversy."

The Hong Kong British Government responded swiftly, and so did the British Foreign Office. The British media too got busy and commented on my remarks. The British Foreign Office issued a statement reiterating that Britain "has the responsibility to govern Hong Kong until 1997. The Chinese government, on the other hand, is responsible for formulating the basic law. The governments of both nations are taking the Sino-British Joint Declaration as the point of departure." The Foreign Office also stressed that Britain had not violated the joint declaration. Some newspapers said, "With Beijing taking a high-handed approach, one is skeptical that China would give Hong Kong a substantial measure of self-rule." Locally, the community reacted strongly, with the Hang Seng index plunging 50 points. Some groups went so far as to protest to XINHUA NEWS AGENCY, complaining that I had been irresponsible in my statements. [Installment No. 51]

NATIONAL AFFAIRS, POLICY

Statistics Bureau Official Views Current Inflation

94CE0108A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 38,
27 Sep 93 pp 7-10

[Article by Qiu Xiaohua (6926 2556 5478), deputy director of the [PRC] State Statistical Bureau: "Why the Economy Is Cooling Off But Price Rises Are Still High"]

[Text] Since the beginning of the second half of 1993, accompanying the gradual putting into place relevant measures by the government to strengthen macroeconomic regulation and control, China's economy has begun to cool down and increases in production, investment, and consumption have slowed each month. The financial order, which for a time was chaotic, has gradually taken a turn for the better; the problems of breaking rules and regulations on discounts and loans, disorder in raising funds, and disorder in setting up financial organizations are being corrected, and initial success has been achieved in their correction; and there has been a large increase in savings deposits. At the same time, consumer market prices have continued to rise. The averages for August were: in China as a whole, retail prices rose more than 11 percent, and the cost of living broke a 13 percent increase. This situation has caused concern and anxiety in all quarters. In this regard I will only give some of my own views, and I welcome the readers' criticisms and comments.

1. Market price increases continue to be high mainly because of the delayed reaction to the previous period of the trend for high economic growth, the relaxation in the currency supply policy, and the vigorous measures for price reform.

Prices are the "barometer" of the state of macroeconomic operations, and an economic boom and price rise go together, but there is often a delayed effect. A practical analysis of China's economy shows that this delay is generally about a half year's time in the entire economic cycle. When observing the current price situation, one must look back at the economic growth situation over the past several years. Beginning in the fourth quarter of 1988, China's economy was brought under control and consolidated, and the pace of development was clearly slowed. Later the retrenchment dynamic became flexible, and in 1991 a recovery-type growth began (in that year the gross domestic product [GDP] was 3.9 percent higher than that of the year before, a rise of 8 percent). In 1992 the growth accelerated (in that year the GDP was 13.2 percent higher than that of the year before). And the trend of market prices is basically for a state of acceleration to prevail, and this state began in the last half of 1992: from July to December the retail prices were on average 5.8 percent higher than in the same period of the year before, and were 9 percentage points higher than in the first half of the year; the December rise was 6.8 percent, 2.6 percentage points higher than in June. With

the spring breeze accompanying Deng Xiaoping's tour of the south, in the second half of 1992 China's economy got on the track of sustained high-speed growth (since July in that year the growth of industrial production has exceeded 20 percent). Correspondingly, beginning in 1993, China's market prices rose markedly: in January they went up 8.4 percent, in March 10.2 percent, in May 12.5 percent, and in the intervening months there was a rise of about 2 percentage points. Because in the first half of this year the growth of China's economy was still in an accelerated state, starting in the second half of the year there was a further rise in market prices, 14.9 percent in July and 15.1 percent in August. This shows that price rises often accompany a high-speed growth of the economy and become a state of acceleration.

Prices are a manifestation of inflation, and they often rise following a relaxation in the money supply. In the initial period of development and consolidation, because a policy of strictly controlling the money supply was adopted, money in the narrow sense—currency and demand deposits (M1)—gradually dropped from more than 30 percent in July 1988 to under 10 percent before June 1990. In the same period, the rise in market prices dropped month by month, from 26.7 percent in December 1988 and 27 percent at the beginning of 1989 to 6.4 percent in December 1989. In 1990-91, because a reasonable growth in the money supply was maintained, the market price rise was basically maintained at under 3 percent; in the period of high-speed growth during the economic recovery, the M1 was affected by the fairly relaxed monetary policy and a situation of accelerated growth clearly appeared. In June 1992 the rise exceeded 30 percent, and in March 1993 it broke through the 40 percent level. Against this background, an accelerated rise in market prices in the second half of 1992 was inevitable, and it is no wonder that current market price increases remains high.

An increase in China's market prices often occurs following the appearance of price reform measures. Because prior to reform the old economic system excluded the market's role, and strict administrative controls were imposed on prices, serious irrationalities were created in China's price administrative mechanisms and price relations. Particularly since the nineties began, almost every year reform has taken big strides and charged through several barriers in succession. By the end of 1992 the prices of 90 percent of the consumer goods, of 80 percent of the means of production, and of more than 90 percent of import-export commodities were being basically regulated by the market. Under the dynamic of such a major reform, the general level of market prices was bound to increase; this is a "necessary cost" of price reform that is difficult to avoid. According to estimates, in 1992, of increases of retail prices as a whole, about 70 percent of it was the effect of policy-type price regulation, and in the first eight months of 1993 about half of the price rise was related to price reform.

From this we can see that at present the market price increase is not falling back in synchronization with the

cooling off of the economy. It is not the case that the current macroeconomic regulation and control policy is not playing its role, but rather it is the total effect of the previous period of high economic growth, generous money supply, and major price reform. This is basically a normal phenomenon, and there is no need for excessive anxiety about it. Of course, as a macroeconomic regulator and controller, there is a necessity for China to obtain and maintain a rational rate of growth in the economy and in the money supply. Mastering the dynamic of appropriate price reform is an important condition for ensuring that the rise in market prices can be lowered to a point that it can be regulated and controlled in order to further perfect the scientific nature of macroeconomic regulation and control.

2. Supply and demand on the consumer goods market are basically in balance, but the rise in market prices is still fairly high, mainly because of the elasticity in consumption and the differences in the consumption mix, causing differences in commodity price rises.

Based on a relevant investigation, at present on the Chinese mainland's consumer goods market, commodities for which supply is greater than demand or for which supply and demand are in basic balance account for 91.6 percent, and commodities for which supply does not meet demand account for only 8.4 percent. What people think is strange is: why is there no reduction in the trend for market prices to rise, and why does the rise remain high? As an individual I think that the main reason for the appearance of this contrasting phenomenon is: On the one hand, from an overall view, although for most commodities supply and demand are not in balance, people's elasticity in the consumption of different commodities is different. If there is a lot of elasticity in this consumption, frequently after a price rise the amount of consumption will fall, thereby restraining price rises; if there is little elasticity in this consumption, often after a price rise it will be difficult to have a major change in the amount of consumption, and thus it will be difficult to restrain price rises. Now, on China's consumer goods market, most of the price rises are often in commodities and labor services for which there is fairly little elasticity, e.g., grain, nonstaple foodstuffs, fuel, rent, tuition, transportation fees, etc. Since the beginning of this year, the rise has been very high: in China as a whole, from January to August, compared to the same period of last year, the price of grain rose 26.3 percent, the price of fuel rose 39.4 percent, the price of nonstaple foodstuffs rose 11.3 percent, and the price of service items rose 28.6 percent. For these commodities and services, which have little elasticity, people in daily life often have difficulty in finding suitable substitutes; once the state releases controls on the prices on these commodities or raises the standards for collecting fees, the law of consumption cannot play a role. Moreover, of these commodities and services, a considerable part of them are not in a state of basic balance between supply and demand, and some of them are adversely affected by the natural environment. As for commodities for which there is a lot of elasticity in

consumption, their price rises are not high. For example, the price rises on clothing and on daily-use, cultural and entertainment electromechanical commodities are basically less than 10 percent, and the prices on some of them are moving downward. On the other hand, influenced by the raising of the people's income level, consumption is tending toward fine quality, high grade, and the new and original, and a fairly big change has occurred in its structure. Even looking at the total output, we see that at present in China there does not yet exist the contradiction of a shortage of consumer goods, but there are still many unsuitabilities between the production structure and the consumption structure. Frequently for commodities that satisfy marketing needs, the situation in supply and demand tends to be tight and price changes are fairly big. In particular, under conditions in which market rules and regulations are not sound and the market order is not standardized, abnormal phenomena, such as price rises in disguised form and arbitrary price prices, will often appear, thus raising the general level of price rises on consumer goods. Many people feel that the price rises which remain high in the current market is a case of some people in a high income bracket with a tendency for high consumption spurring increases of prices of new products, high-grade and fine-quality commodities, and commodities of new and original design; and that the rises in the prices of general traditional goods of dependable quality are not high, and that there even has to be a dependency on price cuts to promote sales.

Moreover, the high rises in the price of consumer goods since the beginning of this year are related to costs. The concentrated manifestation of this is in the rise in the price of advanced products, the rise in the cost of funds and foreign exchange, and the rise in the cost of labor. Since the beginning of this year, the prices of raw materials and energy purchased by enterprises have risen more than 30 percent compared to those of the same period of last year; labor wages have risen more than 20 percent, the prices of funds have risen more than 10 percent, and the prices of foreign exchange have gone up more than 20 percent. These factors for price increases are bound to push up costs, and thereby spur a rise in the ex-factory prices of industrial goods of more than 20 percent, which is bound to be passed on to the retail prices. It is estimated that the cost-push factor has become one of the most important factors in market price rises, particularly for the prices of the means of agricultural production (which have risen 13.5 percent in the past eight months).

Of course the current high price rises on the market are to a certain extent also related to the fairly brisk demand by the people (in the past eight months the volume of commodity retail sales grew 22.5 percent). In the first half of the year, for a while there appeared on the domestic market a situation in which there was a race to buy commodities in order to protect their value, and the situation on the agricultural market was also better than it was in the year before, with a rise in prices exceeding 10 percent. What needs to be pointed out is that, since

the beginning of this year, the renminbi has been devalued, and the cost of imports has risen markedly, also, from another side, pushing up domestic prices.

3. The pressure of latent inflation has abated, and the consumption psychology of the people is basically stable, but the current pattern of market price rises will be maintained for a certain time. If a problem does not appear in currency control, it is estimated that, beginning in the second quarter of next year, the increase in market prices will certainly fall back.

The central government has taken measures to strengthen macroeconomic regulation and control with a rectification of the financial order as the breakthrough point. These measures are manifested in the beginning of the cooling off of the overheated economy (from July to August respectively the industrial rate fell back 5.1 and 1.7 percentage points, and the investment growth fell back 5.4 and 13.2 percentage points). The chaotic financial order has been rectified, and the trend in the financial situation is toward stability (from June to August the urban and rural people newly added 109.9 billion yuan to their savings deposits, thereby greatly alleviating the pressure of currency put into circulation). The prices of the means of production are tending to fall amid a stable situation, and the adjusted market foreign exchange prices are basically stable. All of these things will certainly have a positive effect on the market price situation in the next year. From a look at the M1 growth trend, we see that the more than 40 percent growth for a time at the beginning of the year fell back to 19.7 percent by the end of August. This growth was lower than normal, showing that the latent pressure of inflation has begun to abate. If this level of growth can be sustained for more than a quarter, it is bound after half a year to produce a restraining force on market prices, the rise in prices will fall back, gradually returning to a range within 10 percent that can be regulated and controlled.

However, in view of the problems in the first and second seasons that have been discussed, it will be difficult within a short time to effect fundamental changes, and the economy will suffer the inertia effect of high-speed growth and of the rises in investment still tending to be on the high side. In addition, the fourth quarter is usually the one in which the effect of currency circulation and financial expenditure is at its peak, and it is estimated that the present more than 10 percent rise in prices will continue for several months. For the year as a whole, the rise in the cost of living could range between 14 and 15 percent, of which the rise in cities could be near 20 percent. Therefore, macroeconomic regulation and control must make a point of preventing two tendencies: the first is excessive pessimism and the other is excessive optimism. A cautious, positive attitude should be taken, and regulation and control should be scientifically mastered, striving both to control inflation and to successfully attain the goal of maintaining a fairly rapid growth in the economy.

4. The key to controlling excessively high price rises lies in maintaining a basic balance in total supply and demand and in promoting the optimizing of the structure.

From a look at the macroeconomic regulation and control measures to be taken in the next stage, we see that it will be impossible to completely eradicate inflation and that this will also not be necessary; the point of effort should be one that all sides can bear. Therefore, the dynamic should be to keep the rise in market prices below 10 percent, and the key to this is to enhance the management of the money supply policy and to make strict checks on the currency. At the same time as this, we must, on the basis of maintaining a basic balance in total supply and demand, augment the structural regulatory dynamic, and truly achieve a big development of the bottleneck industries and a rational regulation of the deposit structure. For this reason, we must reform the capital investment system, get a tight grip on setting up investment markets for basic industries and the infrastructure, and establish mechanisms that can circulate the assets of state-owned enterprises, further loosening and rectifying, and encouraging the forces of all sides to advance in unison. Now, first, we must continue to get a good grip on managing investments in fixed assets, and stop or postpone projects for which there is neither capital nor markets. Second, while putting a stop to evil practices, we must "open the front gate," step up the pace of implementing the "funds tray" in the plans, increase the effective supply, in particular support the procurement of agricultural and sideline products, and keep the promise not to just make a show. Third, we must get a good grip on building a unified market in China, devise sound market rules and regulations, break through regional blockheads, and promote the unblocked circulation of resources. Fourth, we must strengthen the legal system, strictly punish all acts that violate law and discipline, particularly cracking down on passing off the fake and inferior as genuine and superior and on driving up prices, and reducing the various kinds of noneconomic factors that cause inflation. Fundamentally speaking, we must prevent the appearance of tangible inflation, and, with dependence on the constant furthering of reform, form management systems and operation mechanisms that meet the needs of the market economy, switching the extensive business style of high input, high consumption, and high speed to the track of depending on technology, fine quality, and low consumption for success, and striving to improve China's economic competitiveness and truly developing the economy rapidly and well.

CASS Economist Comments on Price Trends, Reform

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[Article by Shen Zhiyu (3088 1807 3342): "Noted Economist Comments on Price Trends, Price Reform"]

[Text] Since the beginning of this year, inflation has been picking up momentum in a broad area. The central government took macroeconomic control and regulatory measures but instead of being reined in, the overall social retail price index actually continues to climb. How should we interpret this situation and what actions should we take as a response? Recently we interviewed Professor Zhang Zhuoyuan [1728 0587 0337], an expert on prices, and asked him to comment on price trends and the next stage of price reform in China.

Professor Zhang Zhuoyuan is currently director and a researcher with the Finance, Trade, and Economics Institute of the Chinese Academy of Social Sciences. He is also a professor and supervisor of doctoral studies at the graduate school of the academy, and vice president of the China Prices Society. He has been studying the issue of prices for years and has written several books, including *Socialist Price Theory and Price Reform* and *Selected Works of Zhang Zhuoyuan*, and hundreds of scholarly articles. He is well known in academic circles at home and abroad.

Is It Normal for Prices To Rise Just as Macroeconomic Regulation and Control Gets Under Way?

Professor Zhang Zhuoyuan began by briefly describing the current situation on the price front. Before June this year when the central government took macroeconomic regulatory and control measures, fixed assets investment continued to expand with no letup. Coming on top of the rapid expansion in 1992, this resulted in an overheated economy, releasing the inflationary pressures that had been building up for the past several years. The overall social retail price index climbed every month, up 10.2 percent between January and June alone. Prices of capital goods also soared, up 21.7 percent by May from the beginning of the year. The price of steel used in construction at one point hit 4,300 yuan per ton, significantly higher than the price on the international market. Meanwhile, the exchange rate of the renminbi on the foreign exchange regulatory market plummeted. On 1 June the government decontrolled prices on the foreign exchange regulatory market. By late June the exchange rate had dropped to \$1:11 yuan. The plunge would have continued had not the government intervened in time. Interest rates on the market and the black market surged, with the annual interest rate reaching 20 percent or so in most cases, vastly higher than those charged by banks. The explosion of real estate prices was stunning; the prices of undeveloped land rose in an endless spiral, doubling and redoubling again and again.

Faced with this grim economic situation and galloping inflation, the Chinese Government tightened its macroeconomic regulatory and control measures beginning in June to cool the economy, check inflation, and prevent prices from rising too rapidly. Among other things, it clamped a tight lid on the scale of credit and the money supply, strictly limiting the amount of currency issued in 1993 to within 150 billion yuan. It cracked down on illegal capital-raising; demanded that banks collect the

funds they had lent in violation of the law within a specified period; raised the interest rates charged by banks; and revived value-guaranteed savings. It demanded that the Bank of China become a true central bank and get out of business dealings in the future. It raised the interest rates on treasury bonds this year and speeded up their sales. It tightened its management of the real estate market, imposed controls on foreign exchange and reformed the foreign exchange retention and utilization system, selling foreign exchange on the foreign exchange regulatory control to hold down exchange rates. Party and government organs at all levels were prohibited from going into business with no exception in a draconian step to stop state organs and their affiliates from collecting all sorts of fees arbitrarily under all sorts of pretexts by using their office, etc. In the professor's opinion, it is essential that the government took these measures. Had the government not acted, the development of the entire economy would have been affected, as would reform.

More than two months later, the above-mentioned measures have begun to pay off, as demonstrated mainly by the following: The upsurge in industrial expansion, hitherto excessive, has retreated. In July the output value of industrial enterprises at the township level and above nationwide rose 25.1 percent compared to the same period last year, but was 5.1 percentage points down from the preceding month. The average daily output value was off 15.4 percent from the level a year ago. For the entire January-July period, the gross value of industrial output was still 25.1 percent higher than the corresponding period last year. In fixed assets investment, fewer new projects were launched. In July, the number of capital construction projects and modernization and transformation projects was off by 6,372 compared to the previous month. The boom in real estate and development zones has begun to cool off. The consumer goods market continued to stabilize and flourish. The trading of capital goods began to slacken, with the volume of transactions heading downward. The supply-demand gap for major materials has narrowed. Prices fell and inventories continued to rise. The regulatory exchange rate of renminbi rose, stabilizing at about \$1:8.8 yuan currently, which represents a 20 percent appreciation for the Chinese currency since it hit a record low in late June. Exports rebounded. According to customs statistics, there was a 6.5 percent gain in exports in July compared to the same period last year, while a drop of 9.1 percent was recorded for the preceding month. Household savings surged. In July new urban and rural household savings deposits amounted to 40.5 billion yuan, 26.9 billion yuan more than the same month a year ago, reversing a downward trend.

At the same time, however, prices continued to climb because of the delayed effects of inflation. Retail prices jumped 13.9 percent in July, pushing the retail price index up 10.8 percent for the January-July period. Workers' cost of living index rose 12.8 percent in just the January-June period, and 14 percent from January

through July. In the 35 large- and medium-sized cities, the workers' cost of living was a high 23.3 percent by July; for the entire January through July period, it was 18.2 percent. Can the central government's macroeconomic regulatory and control measures check inflation effectively? Just how long would prices keep on going up? Professor Zhang Zhuoyuan has offered an analysis of price movements for the remaining few months of 1993 and 1994.

What Is the Optimal Meeting Point?

As Professor Zhang Zhuoyuan sees it, the introduction of intensified macroeconomic regulatory and control measures would not tame inflation any time soon. The reason is that it usually takes six months or so for macroeconomic changes to be reflected in prices. In the first few months, therefore, prices may continue to go up. He expects inflation to ease notably only after October. When the central government acted to toughen macroeconomic regulation and control, its goal was to cool the economy gradually after a period of adjustment, restore balance to the overall volume of the macroeconomy, and then bring inflation under control effectively after a time lag, slowing the rate of price increases. Specifically, if we manage to keep fixed assets investment, new bank lending, and the increase in the money supply below 1,000 billion yuan, 400 billion yuan, and 150 billion yuan, respectively, this year, and if we can hold the rate of increase of the gross value of industrial output at 20 percent or below and the annual growth rate of gross output value at 10 percent or so, then the nation's overall retail price index for 1993 may stay below 12 percent. In other words, we can hold the nation's overall retail price index for the second half of 1993 below 14 percent. At the same time, the exchange rate of the renminbi will hold steady at \$1:9 yuan or so. That way a little more fine-tuning is all we need to do in 1994 to further stabilize the economy and hold the rate of price increases to within two digits.

One other scenario is conceivable, however. If the government's macroeconomic regulatory and control measures are resisted by local governments and some enterprises and therefore are not really carried through or if these units go along with them half-heartedly at the beginning only to relapse into their old ways later by going around the red light, thus preventing the economy from staging a soft-landing and reigniting the investment explosion, then the government's original economic adjustment objectives will not be met. In that case, we will have difficulty controlling inflation and prices will continue to rise. Specifically, suppose total investment exceeds 1,000 billion yuan by a wide margin; new bank loans surpass 400 billion yuan, perhaps even reaching 500 billion yuan; the amount of currency issued goes beyond 150 billion yuan; the gross value of industrial output remains at a high level, hitting 25 percent or even higher, and the gross value of output expands 13 percent, 14 percent this year. Suppose too that retail prices surge 20 percent nationwide in the second half of 1993 and the exchange rate falls back to \$1:10 yuan. If all that comes

to pass, the government would have no choice but to adjust the national economy more radically in 1994 so as to re-stabilize it. And that will come with a steeper price. Professor Zhang Zhuoyuan pointed out that the first scenario is a more likely outcome. The war on corruption being waged nationwide in particular will help us reach the various targets as required in the first scenario.

Professor Zhang Zhuoyuan noted that since there is a relationship of mutual substitution between inflation and economic growth, which means that when the economy expands too rapidly, it will inevitably trigger off notable inflation, we must find the best meeting point between a high rate of economic growth a sustainable rate of price increases as a major point of reference for the central government as it regulates and controls the macroeconomy. Bearing in mind the conditions in China, he suggested the following meeting point for the nation as a whole in the next one to two decades: average annual economic growth rate around 9 percent and prices increasing 6 percent on the average annually, not more than 10 percent at most. Assuming that he has located the best meeting point and that the Chinese economy more or less behaves as it should, China would still lead Asia and the world in economic growth rate, ensuring the achievement of the strategic objectives it has set for itself by the end of the century, thereby realizing a fairly comfortable standard of living. What is more, China will match the economic development level of moderately developed nations by the second or third decade of the next century. It seems that this is a promising path that would lead to accelerated economic growth amid stability.

What Next Step Should We Take in Price Reform?

When you discuss the current price movements, you naturally have to talk about price reform. After 14 years of price reform, Professor Zhang Zhuoyuan said, China has taken big strides in the transition toward a market price system and made substantive progress. The market mechanism has begun to play a leading role in the formation of commodity prices. A distorted price structure has improved significantly. Measured against the requirements of developing a socialist market economy, however, price reform has not been completed. Under the central government's plan to tighten macroeconomic control and regulation, price reform is scheduled to slow down for a certain period of time. In the long haul, however, price reform must be pursued with vigor as well as a steady hand. How then are we to further price reform in the future? Professor Zhang Zhuoyuan put forward the following four proposals.

First, decontrol the prices of those products ready to enter the competitive market. As of now there are still prices which should be deregulated but have not, including the prices of a number of leading commodities such as energy products, including centrally allocated coal and finished oil; raw materials such as steel and non-ferrous metallic products; chemical industrial products such as basic chemical industrial products, chemical

industrial raw materials, chemical fertilizers, chemical fibers, and plastics; construction materials such as cement; heavy-duty mechanical products; light and textile industrial products, and a handful of agricultural products under contract procurement. The reasons are extremely complex. For starters, there is the fear that once these prices are decontrolled, the overall price level would shoot up so much so that it would be burdensome for enterprises and households alike. Secondly, the market is still immature. Industry-based monopolies and regional separatism have impeded the formation of a unified market and hence more standardized market-regulated prices. Thirdly, to protect their own vested interests, some departments have balked at delegating power, so on and so forth. It seems that even with a more enthusiastic attitude, it will take us two to three years to gradually decontrol those prices which should be deregulated but have not so far.

Second, we must further rationalize prices under government control. A number of key commodities are still underpriced, so the task of price adjustment remains an arduous one. For instance, the government should set the prices of crude oil and natural gas in a centralized manner. Moreover, it should raise their planned prices substantially, from the present 200 yuan or so per ton to more than 700 yuan to bring them in line with international market prices. Rail freight charges should be more or less doubled, which would increase the freight per ton/kilometer from 3.85 fen to about 6 fen. The prices of government-procured grains and those sold to consumers also must be raised. Public housing rents are clearly on the low side at present; they too must go up. Price adjustments will involve huge sums of money. The adjustment of the prices of crude oil and natural gas and rail freights alone, for instance, would mean an additional 50 billion yuan changing hands. This cannot be accomplished overnight. If we try to do it in one fell swoop, the overall price level would jump a dozen percentage points, which would be socially unacceptable. Therefore we must phase them in step by step, doing everything we could to straighten out the prices mentioned above within five years or so without, however, touching off a round of double-digit inflation.

Furthermore, we must gradually let the market regulate the prices of capital goods. Among such prices, the most important are interest, the price of funds, otherwise known as capital, labor wages, land prices and rents, and exchange rates between the renminbi and foreign currencies. In accordance with the requirements of developing a socialist market economy, they all should be formed and regulated by the market so that the most essential market signals would not be distorted and the improvement of the efficiency of resource allocation would not be hindered.

Zhang Zhuoyuan singled out interest rates, the prices of funds, the foremost capital goods, for special discussion. Calling funds the scarcest economic resource in every market economy, he pointed out that having the market determine interest rates is the first step in having the

market determine the prices of capital goods. In a socialist market economy, interest rates are the most essential lever available to the government for regulating the macroeconomy. To ensure able, coordinated, and effective economic growth, the government must regulate interest rates. In an overheated economy, for example, the rediscount rate and re-lending rate charged by the central bank must be raised to drive up interest rates on the market and hold down inflation. When the economy is too sluggish, on the contrary, the rediscount rate and re-lending interest rate charged by the central bank should be cut to push down interest rates on the market, spur investment and consumption, and bring about economic recovery and growth. Be that as it may, interest rates regulation by the government or the central bank essentially consists of regulating the base interest rates as a way of influencing market interest rates, not directly fixing or altering market interest rates. As for interest rates charged by commercial banks and other financial institutions on loans or paid by financial institutions on deposits, the government should not intervene but instead give the market a free hand in regulating them. Regarding interest rates payable by enterprise and companies as they seek to raise funds directly, the government too should take a hands-off policy and let the bonds-issuing bodies determine the interest rates to be carried by the bonds. Accordingly a distinction must be made between commercial banking and policy-oriented banking, between commercial banks and policy-oriented banks. When a loan must be made to a key infrastructural project or a project in a leading industry on preferential terms, the treasury may pay interest in the form of a deduction and take other steps to differentiate such a loan from ordinary commercial banking.

Finally, we must create an effective price regulatory and control system. Both during the creation of such a system and after, we must keep the overall price level relatively stable and basically stable to ensure the stable and normal functioning of the economy. To stabilize the price level, the key is the implementation of a stable macroeconomic policy by the government. The central bank must keep a tight leash on the amount of money it puts into circulation, limiting not only the cash issued (M0), but also the supply of currency defined broadly to include cash and deposits (M1 and M2). By and large the money supply must not expand faster than the GNP. Nor should the growth rate of the money supply be excessively higher than what the monetarization of the economy requires, preferably around 5 percent.

He went on to say that to ensure the stable development of the socialist market economy, we need do more than regulate interest rates, wages, and exchange rates. We must also prevent wild swings in the prices of major commodities. Toward that end, we must set up the necessary grain, energy, and raw materials reserves and establish price regulating funds, including separate regulating funds for grain and agricultural byproducts. Concomitantly, producers, traders, and consumers must

be provided with signals—market and prices—as a guide to prevent the supply and demand as well as prices of key commodities from moving too sharply upward or down, which would hurt the sustained and coordinated development of the national economy. Furthermore, we must perfect prices-related law-making, enforce the law strictly, and establish a variety of supervisory bodies and methods. All of that is indispensable.

FINANCE, BANKING

Liu Guoguang Interviewed on Role of Foreign Banks

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[Article by special correspondent Ho Hsu (0149 3563): "Important Actions in the Opening to the Outside World To Bring in Foreign Owned Banks: China's Finance and Banking—An Interview With Renowned Economics Professor Liu Guoguang (0419 0948 3432)"]

[Text] Following restitution of China's legal position as a GATT signatory nation, foreign banks will be bound to come to China in profusion. In a situation in which both development opportunities and serious challenges co-exist, whether China's finance and banking has the strength to withstand the onslaught has become a matter of general concern. It was in this connection that the writer visited Professor Liu Guoguang, a member of the Eighth NPC Standing Committee and deputy chairman of the Chinese Academy of Social Sciences.

Trend of the Times

Reporter: Foreign banks began to enter China more than a decade ago, but it has been only during the past two years during China's efforts to re-enter GATT that the issue of the introduction of foreign banks has aroused extreme concern. Please tell us about this situation.

Liu Guoguang: It is my understanding that opening the country to foreign banks was an important decision in China's reform and opening to the outside world that was made more than a decade ago. In 1979, the Beijing Office of Japan's Long-Term Credit Bank hung out a shingle, becoming the first foreign banking institution to set up shop in China since founding of the New China. Later on, some well known Japanese, U.S., British, French, German, Canadian, and Swiss banks also came pouring in to set up offices in China. At first, these offices were permitted to perform only tasks that produced indirect profits. Not long afterward, however, they obtained permission to take part directly in business activities in the special economic zones [SEZ]. Thus, these foreign owned banks began to do more than 10 different kinds of business including foreign currency savings accounts and foreign trade settlements. A large number of foreign owned bank branch offices opened for business in the SEZs. During the 1990's, the opening up

of Pudong in Shanghai provided new opportunities for the entry into China of foreign owned banks. In June 1992, the Chinese Government further opened seven coastal cities including Guangzhou, Fuzhou, Ningbo, Nanjing, Qingdao, Tianjin, and Dalian to the entry of foreign banks. According to the most recent statistics, 250 offices of foreign banking institutions, foreign bank branches, Sino-foreign joint venture banks, and wholly owned foreign banks from 30 different countries and territories have been set up in China's 14 cities that are open to the outside world.

The speed of arrival and the large number of foreign banks coming to China have astounded the world. The degree to which even the four small Asian dragons made inroads when China first opened to the outside world is incomparable.

Not long ago, the Chinese Government tendered to the GATT secretariat a revised tentatively agreed to bill of particulars on the General Agreement on Trade in Services (GATS), which made the following tentative promises about finance and banking services: Foreign banks may use the following four kinds of financial institutions to conduct investment and provide services: foreign owned banks, foreign bank branches, Sino-foreign joint venture banks, and Sino-foreign cooperative joint-venture banks.

This shows that the opening of China to foreign banks is an irreversible major trend. Not only is this an important measure for the opening of China's finance and banking sector to the outside world and a requirement for China's GATT restoration, but it is also a major way for China to establish and develop a socialist market economy and to dovetail China's economy with the world economy.

Is the Wolf Coming?

Reporter: Many people still find it difficult to accept the large scale introduction of foreign owned banks, or they are even filled with anxiety about the prospect. They feel that this will hurt domestic finance and banking and harm development of the indigenous economy and the finance and banking sector. This is termed "crying wolf." What are your views about this?

Liu Guoguang: Whether the wolf is coming is impossible to say categorically, and if the wolf is indeed coming, that is not necessarily a bad thing. At least it brings some external pressures to bear. I would like to explain several levels of thinking about this question as follows:

On the one hand, bringing in foreign banks will face all of China's big domestic banks with strong competitors. They will face more severe challenges. In many ways, they will be adversely affected and buffeted about. This goes without saying. We know that foreign banks have not only abundant experience and skill in dealing with international banking and financial competition, but they also have self-sustaining, flexible, sophisticated, and highly effective business methods, management mechanisms, and technical equipment. Therefore, foreign

banks hold a marked advantage in both their operation and the attraction of capable people. Practice in China during recent years shows that in areas and business fields that foreign banks have entered, such as the international clearing business and the foreign exchange credit business, China's domestic banks have been stricken in varying degrees. This has showed up in a fall off in business volume, a loss of customers, and the flight of skilled personnel. If foreign banks are permitted to do business in the renminbi, the predicament of the domestic banks will be even worse. These are inescapable facts. From this point of view, I feel that some people's worries about the wolf coming make sense. They should not be regarded as groundless fears.

On the other hand, we must realize that what follows from the influx of foreign banks is not all negative. There are many positives. For example, the presence of foreign banks will make it easier for domestic banks to learn sophisticated foreign bank management methods and the newest business techniques. This will enhance the domestic banks' ability to provide services, and to upgrade domestic finance and banking in terms of management, service, and skills. It will help increase the competitiveness of domestic finance and banking institutions, enliven financial markets, and accelerate the modernization of domestic finance and banking. It will also help develop new financing methods and bring in foreign capital. It will increase Sino-foreign economic and technical cooperation, and it will promote the integration of Chinese finance and banking with world finance and banking, etc. The benefits are numerous.

At the same time, we must also realize that as the lifeblood in operation of the national economy, finance and banking truly power the national economy. It is also for this reason that even nations that have opened their financial markets to the outside world have instituted strict and effective control over foreign banks. Cases in point are Japan and South Korea, which have strict regulations regarding the sphere of business of foreign banks. Australia and Malaysia likewise have strict restrictions on foreign banks establishing branches in their countries. The current situation in China suggests implementation of a limited and gradual deregulation of the sphere of business and the operating area of foreign owned banks. The "Shanghai Foreign Owned Finance and Banking Institution and Sino-Foreign Joint Venture Finance and Banking Control Methods," which was promulgated in 1990, provides detailed regulations on this matter. The tentatively agreed to GATS bill of particulars that China recently made public further provides as follows: When providing services, foreign finance and banking institutions must abide by "People's Republic of China Special Economic Zone Control Regulations Regarding Foreign Banks and Sino-Foreign Joint Venture and Contractual Joint Venture Banks," as well as by "Shanghai Foreign owned Finance and Banking Institutions and Sino-Foreign Joint Venture Institutions Control Methods." Foreign investors shall be finance or banking institutions that have had offices

permanently located in China for three years. Foreign banks shall have no less than \$10 billion total assets and enjoy a good reputation in their home country before applying to invest in China. Foreign banks may deal only in foreign currencies. Therefore, looked at from this angle, I believe that there is nothing to worry about to be afraid of from bringing in foreign banks.

To summarize the foregoing several levels of thinking, my conclusion is that in an overall sense and in long-range terms, the advantages of bringing in foreign banks outweigh the disadvantages. They will ultimately play a positive role in the reform and development of China's finance and banking.

Shortcomings of Chinese Finance and Banking

Reporter: As far as GATT requirements are concerned, particularly the provisions pertaining to trade in financial services in the GATS, it should be said that there is little disparity between China's finance and banking and customary international practices. Please comment on problems in this regard.

Liu Guoguang: It is true that many problems remain in China's finance and banking, which is in the midst of reform and development. These problems are found in both the system of organization and the management mechanism as well as in service methods and techniques, and the caliber of personnel. A look at the finance and banking system as a whole shows the macroeconomic regulation and control ability of the central bank to be weak, and a commercial banking system that stands on its own two feet as a business and is responsible for its own profits and losses has yet to be built. The entire finance and banking business remains highly monopolized by the national banks, effective and normalized competition in financial markets a long way from taking shape. In the system for the management of capital, we continue to control the total amount of funds available, setting the total amount of credit on the basis of national plan expenditures. All the specialized banks must strictly control the amount of funds they make available, largely ignoring the safety, the fluidity, and the appreciation of credit funds. In the interest rate control system, interest rates are still set mostly by plan or administrative fiat, no market interest rate mechanism having been truly formed or playing a role. The specialized banks' assets are undiversified; techniques for controlling assets and liabilities are antiquated; an effective mechanism for stimulating profits and an understanding of modern competition are lacking; and both the efficiency and quality of financial services are very low. In addition, finance and banking legislation lags, and first rate finance and banking talent is hard to find. This situation is at variance with, and even falls far short of, the major trend toward deregulation of China's finance and banking, as well as requirements for restitution of China's GATT status. Given such a finance and banking background, China's domestic banks come under strong competitive pressure from foreign banks. They are in a disadvantageous position that is difficult to avoid.

Increasing Strength To Meet Challenges

Reporter: What do you feel the priority task is for China's finance and banking sector given the need to develop a socialist market economy and the moderate introduction of foreign owned banks?

Liu Guoguang: The introduction of foreign owned banks is already a major trend that cannot be reversed. This being the case, our focus should not be on increasing limitations on foreign banks' entry into China's finance and banking markets. In fact, this is unwise and even impossible. Our emphasis should be on the needs of the market economy and opening to the outside world. We should accelerate reform of China's finance and banking system, and we should do all possible to move ahead with international normalization with the goal of improving in every way the adaptability and competitiveness of China's banking system. This requires close study of the experiences and lessons of developed nations, developing nations, and of China itself in opening its banking system to the outside world, and relating them to our own formulation of measures related to the applicable provisions of GATT.

Much work must be done in these regards. I feel that work on the following matters is crucial: enhancement of the central bank's functions to hasten the formation of a unified and effective macroeconomic regulation and control mechanism in order to ensure currency stability; and reform of the central bank's methods of controlling the funds of the specialized banks. Adoption of the 8 percent international practice (i.e., capital plus savings must amount to 8 percent of risk assets), going all out to promote strict control of the ratio between assets and liabilities and to control risks in the specialized banks, increasing the specialized banks' self-restraint capabilities, and establishing a mechanism to supervise and control risks; quickening the transformation of the nation specialized banks' operating mechanisms so that they can gradually become economic entities responsible for their own operating decisions and responsible for their own profits and losses; reforming the interest rate control system, interest rates eventually being set by the market; appropriate development of finance and banking institutions of many various kinds to promote competition; use of both international and domestic means to hasten the training of highly qualified financial service personnel to bring about the quickest possible upgrading of the caliber of personnel through the banking business; widespread use of computer technology and modern communications equipment to hasten the modernization and computerization of finance and banking tools to improve service efficiency; and earliest possible finance and banking legislation.

Finally, I want to emphasize the need for discretion on the issue of the scale and speed with which foreign banks are brought into China. Their entry must be in keeping with the level of domestic finance and banking, and the legal climate. There can be no rushing headlong into precipitate action. Prudence is also needed in permitting

foreign banks to deal in renminbi. In addition, control and foreign owned bank business transactions and auditing, supervision, and inspections must be enhanced.

ECONOMIC DAILY on Merits of Tax Sharing System

94CE0215A Beijing JINGJI RIBAO in Chinese
16 Nov 93 p 7

[Article by Gao Shusheng (7559 2579 3932): "The Tax Sharing System Is Spreading Like Wildfire"]

[Text] As fiscal system reform is playing a very key role in China's reform process, the significant new fiscal reform measures that are going into effect are arousing widespread attention in all circles. As fiscal macroeconomic regulation and control capability is being tightened, particularly over central finances, the tax sharing system reforms that "seem ready to happen" have naturally become the focus of attention of people in all walks of life.

"Down With the Package" Has Become a Militant Slogan

Is China now capable of carrying out tax sharing system reform? Theoretical circles have not yet reached a consensus on this. One of the focuses of the debate is how to assess the fiscal package system. Academics who strongly oppose the tax sharing system fully affirm the merits of the fiscal package system, holding that it helps to stimulate local fiscal initiative, while those who favor implementing tax sharing as quickly as possible strongly attack the current fiscal package system, on which grounds they promote tax sharing system reform. These latter hold that while the fiscal package system has pros, such as package figures being simple, clear, and easy for all to grasp, its many existing practical defects fully prove that it has completed its historical mission.

Scholars who favor tax sharing system reform list the following major defects of the fiscal package system:

1. Fiscal package bases are set irrationally, protecting vested interests, creating "injustice and taking more from the best," and further widening the interregional economic and social development gap.
2. The local revenue package weakens tax regulation capability, reinforces "regionalism" and "feudal separatism," and blocks commodity circulation and the formation of a uniform market.
3. The fiscal package slants revenues toward localities, leaving state revenues, particularly central ones, without strict guarantee and oversight mechanisms, and creating a severe loss of central revenue.
4. The fiscal package contributes neither to the thorough conversion of government functions or to genuinely pushing enterprises toward the market, while causing local governments to guide the disposition of resources

unilaterally in the interests of increasing local revenues, which leads to duplicate production, construction, and importing, as well as to wars over all types of raw materials and to the assimilation of local industrial structures.

5. The fiscal "separate kitchens" results in localities haggling with the center over the setting of sharing percentages and contract bases, as well as causing lateral competition. This makes central fiscal actions non-standard, with arbitrary borrowing from localities and income equalitarianism, while localities take many fiscal accommodation steps to intercept and keep revenue that should be paid to the center. This ultimately limits the rational growth of state revenue and fiscal macroeconomic regulation and control capability.

There Is Still a Lingering Fear of "Tax Sharing"

Just as more and more people are shouting the praises of the tax sharing system, theorists are singing "another tune," even though it may be a very "faint" one. The current theoretical stands against the tax sharing system can be summed up in the following three key areas:

1. As the tax sharing system's point of departure and grounds conflict with our overall reform objectives, the tax sharing system should be firmly opposed. The scholars who favor this view hold that the tax sharing system is focused on increasing the [central] revenue percentage, by concentrating central financial might, the grounds for which are that the above base sharing part paid to the center in the fiscal package is too small. But they say that promoting tax sharing on this grounds ignores a fundamental issue, i.e., that increasing local fiscal might was aimed at stimulating the fiscal initiative of local authorities, with fiscal authority being devolved along with administrative authority, meaning that a lower central revenue percentage was inevitable. So tax sharing would be bound to weaken the impact of local profit forces, causing a tightening that would be adverse to stimulating central and local initiative simultaneously, as well as to sharp economic growth, and ultimately to increasing central revenues.

2. China is not yet fully equipped with the conditions for tax sharing. The academics who favor this view point out that standardized tax sharing requires: 1) a clear division of central and local administrative authority; 2) a break with the order of revenue division based on enterprise subordinate relations; 3) a scientific revenue and expenditure base factor appraisal law; 4) a relatively perfect local tax system; 5) separate central and local tax management and collection. But China is not yet fully equipped with these conditions. For instance, current local taxation still involves many places unsuited to tax sharing. This can be seen mainly in that local taxes are more nominal than real, with the local tax revenue percentage too small to meet local spending needs and unable to increase along with local economic growth, and collection and management in chaos. So as the terms for tax sharing do not yet fully exist, rather than expanding

the tax sharing experiment in scope, it would be better to begin by studying and drawing up a scientific methodology based on a factor appraisal of revenue and expenditure bases, in order to make good preparations for standardized tax sharing system reform.

3. The aim of fiscal reform should be not "tax separation," but rather "system separation," i.e., the establishment of a graded budget system. This is because tax sharing actually solves only the revenue division matter, not the system problem. The graded budget system put forth by the scholars who hold this view includes the following key substance: Drawing up separate central and local tax revenue systems; giving governments at all levels corresponding spending independence; setting up a standardized system for the shift of payments from the center to localities; establishing separate central and local budgets for independent balance; and providing local governments with the authority to issue local government bonds to increase their capital account revenue.

Tax Sharing: The Trend of the Times

With State Council approval, the Ministry of Finance began in June 1992 to conduct tax sharing experiments in nine provinces, autonomous regions, and municipalities authorized to formulate their own plans independently, striving to divide central and local revenue sources through tax categories, in order to standardize and rationalize central and local financial distribution relations. These tax sharing experiments have shown the following features:

1. They have expanded local fixed revenue limits and better stimulated local revenue organization initiative, helping to reinforce tax collection management, stop up system loopholes, prevent revenue erosion, ensure basic central government spending needs, and tighten central macroeconomic regulation and control.

2. The tax sharing system turns flow taxes from most being retained by local governments to a central local "50-50" sharing, adjusting central-local distribution relations, eliminating to a degree tendencies, such as unchecked local development of high tax rate products and unchecked striving for output value and speed, and helping to promote the state's industrial structure and the formation of a uniform market, eliminate financial distribution arbitrariness, adjust interregional financial distribution, and appropriately shrink the interregional economic and social development gap.

3. Tax sharing can play a promotional and driving role in the reform and opening of our whole economy. On one hand, all areas will pay attention to managing the flow taxes shared by the center and localities. On the other hand, once all state-owned, collective, and "the three kinds of foreign trade" enterprise income taxes become local fixed revenue, this will spur local governments to pay attention to enterprise economic efficiency, providing more effective guidance and oversight of enterprise operations.

Based on these tax sharing experiments, the state has decided to practice the tax sharing system on a wider scale beginning in 1994. So theorists have made the following suggestions on ways to implement tax sharing in practice:

1. At present, due to a number of limiting factors, it will be impossible to accomplish the tax sharing system all in one move. Overall reform steps could proceed in the order of "the current package—a tax sharing package—a tax sharing system in which shared taxes dominate—a thorough tax sharing system." Meanwhile, based on conditions in various areas, we could break down and apply varying methods for a tax sharing system.

2. Tax sharing reform must be accompanied by reforms in other areas, most crucially: a) We need to clearly divide governmental administrative and fiscal authority, particularly construction investment authority, with central revenue undertaking mostly key national and trans-regional project construction, and local revenues being responsible for building regional projects. b) We need to reform our tax system, by establishing one conforming to market economy needs, as well as a sound local tax system. c) We need to reform systems, such as planning, pricing, investment, circulation, and social security.

Commentator on Personal Income Tax Reform

94CE0185A Beijing ZHONGGUO SHUIWU BAO
[CHINA TAXATION NEWS] in Chinese 4 Nov 93 p 1

[Article by CHINA TAXATION NEWS Commentator:
"Important Measures in Tax Reform"]

[Text] The fourth session of the Eighth NPC Standing Committee examined and adopted the "Decision of the NPC Standing Committee on Revision of the 'Individual Income Tax Law of the People's Republic of China'" (hereafter referred to as the "Decision") on 31 October 1993. President Jiang proclaimed this "Decision" in Order of the President of the People's Republic of China No. 12. The "Decision" will take into effect from 1 January 1994. This is a major revision of China's individual income tax system. It shows that a major step has been made to make the individual income tax system become more legalized, scientific, standardized and rationalized. The proclamation and enforcement of the revised individual income tax law is of great significance in promoting the healthy development of China's socialist market economy, opening the country even wider to the outside world, ameliorating the uneven distribution of incomes in society and protecting the nation's rights and interests in taxation.

To reform China's individual income tax system is an objective requirement in continuously developing the socialist market economy, deepening the reform and opening to the outside world. Prior to the reform, China's individual income tax system was composed of three tax laws and regulations. The enforcement of these laws and regulations has played a positive role in promoting economic and technical cooperation and

exchanges with foreign countries, regulating the incomes of individuals and increasing the revenues of the state. However, with the development of the situation, some contradictions and problems have gradually cropped up. They are often manifested as follows:

1. The tax laws and regulations are not standardized in taxing individuals with similar incomes and dividing the categories of taxpayers.

2. Expense deductions seem to be low, while normal tax rates too high.

3. The tax laws and regulations can no longer keep pace with the many social and economic changes in terms of the scope of taxation, taxable items and tax exemption policy. There is a need to readjust and improve them.

In light of the aforementioned problems, the "Decision" made the following important revisions of the 1980 Individual Income Tax Law on the basis of the principle of "treating all taxpayers on an equal basis, simplifying the tax system and making reasonable adjustments" after summing up the past experience and using the experience in foreign countries as a reference.

1. Efforts have been made to expand the sphere of the Individual Income Tax Law to include Chinese citizens, foreigners and self-employed industrial and commercial establishments into a single uniform individual income tax law.

2. In accordance with international practice, the concept of "resident" is introduced to differentiate the taxpayers' limited liabilities from their unlimited ones in paying taxes.

3. Five more taxable items have been added according to the actual situation in social and economic life. They are "incomes of self-employed industrial and commercial establishments in production and business," "income of institutions and enterprises from their contracted and rental businesses," "income from the transfer of properties," "income from authors' remuneration" and "unexpected incomes."

4. Tax burdens have been properly adjusted. The tax rate table for income tax from wages and salaries is divided into nine steps instead of six steps. The "Decision" stipulates that self-employed industrial and commercial establishments in production and businesses must pay income tax at progressive rates ranging 5 to 35 percent levied on their income in excess of specific amounts. Those who are paid extremely high remunerations for a certain type of work may be asked to pay higher income tax on a percentage basis. In addition, people are allowed to deduct from their income taxes the amount of their donations to education or public welfare funds.

5. More items have been added for tax exemption in accordance with the state of affairs in China.

It is important to enact a good tax law, but even more important is that we must do a good job in enforcing

such a law and ensure that laws are observed, that their enforcement is strict and that law breakers are dealt with. To levy the individual income tax constitutes an important means of the state in strengthening its macro-economic control. We must earnestly carry out this work in levying and collecting the individual income tax. This law directly affects the distribution of individual benefits. It is an important issue of policy, and it involves many aspects of life. It is difficult to levy and enforce this law. In enforcing this law, the tax authorities must not only work hard, but also acquire the full understanding and support of the large number of taxpayers and people in all sectors of life in society. It is for this reason that the local party and government leadership must firmly strengthen their leadership in enforcing this law. The various departments concerned must energetically coordinate with one another in this regard. Directly shouldering the responsibility in levying the tax, the tax authorities have an arduous task to perform. On the one hand, they must adopt all measures to give publicity to the significance and the spirit in reforming the individual income tax law so that all taxpayers will understand this law and consciously pay their income tax according to the law; while on the other hand, they must earnestly sum up their past experience in collecting income tax, and firmly and in a down-to-earth manner achieve their goal of acting according to law and levying the tax on the basis of the prescribed tax rates.

Currently, there is less than two months left before the new individual income tax law goes into effect. The tax authorities at all levels must seize every opportunity to actively carry out their preparations in propaganda and training work and in studies in order to enforce the new tax law with a good beginning.

It is our belief that with the vigorous support of the party and government leadership at all levels, the close coordination of the various tax authorities, the full understanding of the large number of taxpayers and the joint efforts of all the cadres in the taxation departments, China will definitely be able to achieve new progress in levying and collecting individual income tax and let this individual income tax play its due active role.

Legal Specialist Views Taxation of Authors

94CE0185B Beijing GUANGMING RIBAO in Chinese
24 Nov 93 p 2

[Article by reporter Huang Xiao: "Dialogue on Personal Income Tax From Authors' Remuneration—Interview of Professor Zheng Chengsi, a Jurist of the Academy of Social Sciences"]

[Text] *Reporter:* The fourth session of the Eighth NPC Standing Committee adopted a decision on revising China's "Individual Income Tax Law" on 31 October 1993. Friends in the intellectual circles, particularly many experts and scholars, are extremely concerned

about their personal income tax from the authors' remuneration. Please talk about China's laws on this connection.

Professor Zheng: China's personal income tax system was formed in 1980. The Third Session of the Fifth National People's Congress adopted the "Individual Income Tax Law." In the "categories of taxable income" this law did not say anything about authors' remuneration. However, it mentioned "income from royalties." In the "Rules for the Implementation of the Individual Income Tax Law," this income was interpreted as "income from providing and assigning patent rights, copyrights, rights to use proprietary technology and other rights." Thus, from this we can understand that authors' remuneration is included in the income from copyrights. At that time, it was stipulated that a monthly deduction of 800 yuan is allowed, and the tax rate was 20 percent.

Reporter: What do intellectuals think about this law after its enactment?

Professor Zheng: People in the academic field complain a great deal, because they have to make monthly tax payments from their income which is in excess of 800 yuan. Some experts and scholars write a book once in every ten or more years or even once in a lifetime. However, they must make a lump-sum tax payment. This is quite unreasonable.

In the "Interim Regulations on Personal Income Regulatory Tax" proclaimed in 1986, the State Council lowered the monthly deduction to 400 yuan for the personal income regulatory tax. However, the monthly deduction remains at 800 yuan for incomes not exceeding 4,000 yuan from free-lance writing, translation and transfer of technology. For any single payment of 4,000 yuan or more, a deduction of 20 percent shall be allowed for expenses. The remaining amount shall be taxed.

Reporter: From this, we can see that these regulations take into consideration the interests of those who invent and create and of the literary and art workers.

Professor Zheng: The No. 69 Document issued by the State Tax Bureau in 1990 stipulated that if the author's remuneration for a book does not exceed 20,000 yuan, he or she will pay income tax with a tax abatement of 30 percent than the taxable amount listed in the "Interim Regulations on Personal Income Regulatory Tax." However, for those whose authors' remuneration for a book exceeds 20,000 yuan, they still need to pay the personal income regulatory tax as stipulated.

Reporter: This shows another great progress. According to these regulations, the tax rate for authors' remuneration under 20,000 yuan per book is only 14 percent.

Professor Zheng: It is so. However, this is only an administrative document. It is not so binding as a law. In fact, more than half of the publishing houses do not

enforce these regulations. Most of them say that they have not seen such a document.

Reporter: The "Individual Income Tax Law" revised on 31 October 1993 explicitly stipulates that "the tax rate applicable to income from authors' remuneration is 20 percent with a tax abatement of 30 percent, and that for income from personal services or authors' remuneration, a deduction of 800 yuan shall be allowed for expenses, if the amount received in a single payment is less than 4,000 yuan. For single payments of 4,000 yuan or more, a deduction of 20 percent shall be allowed for expenses. The remaining amount shall be taxed.

Professor Zheng: In this way, the tax rate for authors' remuneration is still 14 percent. As compared with the tax rates of other incomes, this is fairly preferential. Besides, it is written into the state law this time.

We must emphatically point out that according to a provision of the revised "Individual Income Tax Law" on tax exemption, if a book or thesis wins the prize of a provincial-level government, a ministry or commission under the State Council, a PLA unit at or above the Corps level and any foreign or international organization in the fields of science, education, technology, culture, public health, sports, environmental protection and others, the prize is tax-free in despite of its amount.

Reporter: After a book is published, in what way can its author pay his or her income tax from his remuneration?

Professor Zheng: In practice, the publishing house generally withholds the amount of income tax that the author needs to pay before it pays the author's remuneration, and should mail a copy of the necessary tax form to the author. Some of the publishing houses do not withhold income tax for the authors. They should mail the authors the tax paper anyway. As far as authors are concerned, they better ask the publishing houses if they are not so sure whether or not the publishing houses have withheld the income tax or not, because tax evasion is subject to administrative punishment or even criminal prosecution.

FOREIGN TRADE, INVESTMENT

Article Suggests Countering Antidumping Actions

94CE0067A Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 141, 15 Sep 93 pp 20, 53

[Article by Zhang Yuqing (1728 3768 0615) of the Treaties and Law Department, Ministry of Foreign Economic Relations and Trade: "New Trends in Foreign Antidumping Actions Against China's Export Products"]

[Text] On 7 July 1993, the U.S. Department of Commerce gave its final judgement on the antidumping case of nodular cast iron tubes exported by China, deciding to levy a high antidumping tax of 127.38 percent on all

such products of Chinese export enterprises. Thus, this product of China's will be completely squeezed out of the U.S. market.

Before 1988, on the antidumping issue the U.S. Department of Commerce, because China was a country with a centrally planned economy, decided to levy an antidumping tax in line with a standard tax rate, on a Chinese enterprise that was ruled as exporting a commodity in a manner that constituted dumping. After 1988, changes were made in this U.S. policy: Provided that a Chinese import or export company could prove that in a given enterprise, in both law and fact, there did not exist government control, the U.S. Government could, in line with the difference in the export prices of the commodities of different companies, separately lay down different antidumping tax rates. For example, in the May 1991 electro-optical fireworks case and other cases, the U.S. Department of Commerce gave rulings according to separate tax rates. However, after Joseph Spetrini, new acting chief of the International Trade Management Office of the U.S. Department of Commerce, took his post, changes were made in this policy. The signed ruling on this states: "In the investigations and administrative reviews of the past, separate tax rates were always applicable, but the Department of Commerce has not yet differentiated on the basis of ownership and export businesses; state ownership is not a barrier to the obtaining of a separate tax rate by an export company. We have now reconsidered this policy and have decided that it is improper to give separate tax rates to state-owned enterprises. We have determined that an entity owned by the central government cannot be completely divorced from the central government's control, and that state-owned enterprises provide an opportunity for the central government to control prices. Therefore, with regard to future investigative cases and administrative reviews, the Commerce Department will not consider the request of a state-owned enterprise for a separate tax rate." This ruling was filled with extreme discrimination against and unfairness toward China's state-owned trade enterprises, and it also threatened the destiny of China's export commodities on the U.S. market. In this antidumping case, the Metal Products Company under the China National Metals and Minerals Import and Export Corporation engaged lawyers, provided a large amount of evidence, and made a powerful counterplea, as a result of which the original judgement on the antidumping tax rate was much lowered. However, because the U.S. Department of Commerce, without exception, would not give China's state-owned enterprises separate tax rates, this company suffered serious adverse effects.

There were two main reasons for the antidumping tax rate on nodular cast iron tubes being as high as 127.38 percent: 1) The U.S. Department of Commerce had demanded that the Chinese Government make a reply on a "standard questionnaire" issued by the department, and the U.S. Government stated that it had not yet received this reply from the Chinese side. 2) In China there are a total of eight companies that export this

product to the United States, but with the exception of the China National Metals and Minerals Import and Export Corporation, there was no second company that agreed to act on behalf of the Metal Products Company and make an appeal against America's antidumping action. Therefore, the U.S. Department of Commerce, when a ruling is made, makes use of the so-called "Best Information Available (BIA)," which favors U.S. businessmen (i.e., data provided by U.S. industrial appellants). The antidumping tax rate in the U.S. final ruling was the tax level put forward by the appellant on his first appeal.

The trend in this policy of the United States raises new questions for the appeals made by import and export commerce departments of China and its trading companies. At present, China's products that have been the target of U.S. antidumping actions are unsupported and unpermitted products, and their export is lacking in orderly management. Their volume is sharply increasing year by year, and enterprises are competing in exporting them at low prices; but, when there is an antidumping action, no one is willing to personally put up money to appeal the action. U.S. law demands that the length of time for an appeal be set quite strictly, and, therefore, this usually causes the U.S. Department of Commerce to use the BIA for China's export enterprises.

The Western countries, including the United States, have always made antidumping a protectionist weapon to limit imports, protect domestic industry, and promote trade. China's export products have become the key targets of the West's antidumping laws. Recently America and the EC carried out an antidumping investigation of more than 20 products exported by China, including color television sets, bicycles, computer diskettes, cast iron tubes, carborundum, shoes, athletic shoes, fluorite, microwave ovens, nitro-formaldehyde, (silicasolucate) [gui er suan 8944 0059 6808], and aldose. Mexico has also made antidumping investigations on more than 4,000 Chinese products in 10 major categories (its export volume is 75 percent of China's export to Mexico).

To solve the problem of foreign antidumping actions against our export products, we suggest:

First, strengthen the coordination and management of export products and enhance the capability and means for import and export chambers of commerce and other societies for organizing appeals against antidumping actions.

Second, devise ways to penalize exports at lower than cost, and put a stop to the phenomena of high-price panic buying and low-price competitive selling.

Third, set up a fund for appeals against antidumping actions; enterprises that are members of chambers of commerce or other societies every year will pay a certain proportion of their export volume value into the fund. The fund will be used for appeals against antidumping actions as well as for investigation and research.

Fourth, the economic relations and trade committees at all levels must attach importance to the problem of foreign antidumping actions against China's export products; and supervise enterprises so that they get a good grip on the prices and volume of export, and, after an antidumping case arises, urge the enterprise to take the initiative in making a timely appeal.

Fifth, the relevant government departments must make use of all opportunities and channels, like delegation exchange visits and mixed committee meetings, to negotiate with the governments of Western countries to change their discriminatory practices against China's export products.

Levying an antidumping tax on an export product is equivalent to squeezing it out of a foreign market. There are now more than 140 kinds of China's export products on which rulings have been made to levy an antidumping tax. If things go on like this, China's export potential is bound to be adversely affected, and this should draw a high degree of our attention.

POPULATION

Comprehensive Family Planning in Impoverished Areas

94CE0159A Beijing RENKOU YANJIU
[POPULATION RESEARCH] in Chinese No 83,
29 Sep 93 pp 55-59, 64

[Article by Wei Liuqing (7614 3966 1987), Xu Shanyou (1776 0810 0645), and Chen Youdao (7115 2589 6670) of the Rugao Municipal Family Planning Commission in Jiangsu: "Strategic Thinking On Comprehensive Family Planning in Impoverished Areas"]

[Excerpts] Shanxi Province is one of the 18 most impoverished places in China. In all, it has 50 impoverished counties with a population of 8.5453 million, which occupies 45.5 percent of the province's 110 agricultural counties. Scattered throughout such areas as Taihang, Taiyue, Hengshan, and Zhongtiao, it constitutes 29.3 percent of Shanxi's total population of 29,418,600. For many years, the Shanxi Provincial Committee and the provincial government have adopted a series of major and important measures intended to develop the economies of the impoverished counties, but the average income in 1991 was still less than 300 yuan, which was 47.2 percent lower than the provincial average. In addition, 20 percent of the peasants still have been unable to resolve the problem of getting enough to eat or warm clothing to wear. Looking into the reasons, we see that in addition to the restrictions of climate, water resources, traffic, and production type, backwardness of family planning work is an important factor. While this backwardness is due to a very large degree to insufficient comprehensive handling by relevant departments and various other sectors of society. [passage omitted]

Major Characteristics of Family Planning Work in the Impoverished Areas

1. A higher birth rate, with a more rapid population increase. The fourth census showed that the birth rate in Shanxi's 50 impoverished counties was up to 25.18 per 1000, which was 12.9 percent higher than the provincial average for the same period. The highest birth rate was in Baode county, which reached as high as 31.23 per 1000. In 1992, based on a population survey by the provincial Bureau of Statistics, the birth rate in the 50 impoverished counties was 21.23 per 1000, which was still 8.4 percent higher than the average level for Shanxi. In addition, the natural population rate of increase in the impoverished areas was very high: it was 18.23 per 1000 in the fourth census and 14.29 per 1000 in 1992, which was, respectively, 2.17 and 1.64 per 1000 higher than the provincial average for the same period.

2. The high gross female fertility rate. In 1989, the gross female fertility rate in the 50 impoverished counties was 3.27, which was 0.81 higher than the provincial average. Among these, there were 31 counties in which the gross female fertility rate was more than three with Ji County having the highest rate, 4.398. In Daning and Fengxi Counties, it was up to 4.259 and 4.123, respectively. Based on our recent investigation, 1992's gross female fertility rate in the 50 impoverished counties was still steady at three, with no decrease.

3. The rate of family planning and a high rate of multiple births. According to figures from the fourth census, the multiple birth rate in the 50 impoverished counties was up to 34.8 percent, with the highest being 50.3 percent in Pu County; it was close to 50 percent in Fengxi, Zhongyang, and Baode Counties. Although these counties were listed as key control counties by the provincial committee and government, the recent investigation showed that its multiple birth rate was still holding at 20 percent, and in some towns and villages was still higher than 30 percent. Countering this is the fact that the family planning rate in the impoverished areas tends to be low; in 1990, the family planning rate in the 50 counties was 40.4 percent, and in 1992, it was 43.9 percent. Both of these figures were obviously lower than that for all rural areas in Shanxi.

4. A low rate of late marriages and late births, and a high rate of early marriages and births. [passage omitted] Based on close monitoring by relevant departments, only about 20 percent of young men and women persist in late marriage and births voluntarily, and only about 15 percent of newly married couples practice later births. Under the domination of traditional custom, the phenomenon of early marriage, early childbearing, and illegal marriages were quite popular. It was shown that, in ten concentrated impoverished counties in Xinzhou, nine counties on Lulian Mountain and six counties on Xi Mountain in Lingfeng, the early marriage rate for women has risen to 21.8 percent from 17.6 percent at the time of the fourth census. The early childbearing rate for women has also risen to 19.7 percent from 15.3 percent at the

time of the fourth census, and in a few individual places, the early marriage and early childbearing rate even went over 30 percent. [passage omitted]

The Current Situation Regarding Comprehensive Handling of Family Planning Work in the Impoverished Areas

What we refer to as comprehensive handling of family planning work is, under the united leadership of Party committees at various levels and governments, to inspire, organize, and coordinate various powers throughout the whole of society, confirming the division of labor into each relevant department's position and responsibility. Its objective is to control the increase in population, improve the quality of the population, exploit every advantage, take responsibility for each position, control each link, jointly manage, to create a population situation with is favorable for building the economy and developing society. We can examine the current situation of comprehensive handling of family planning in Shanxi's impoverished areas from two aspects: 1. Basic methods

A. The leadership, organization, and coordination functions are carried out well by the various organs of committee and government. Ten years ago, some prefectures, counties, towns, villages (residents' committees) all established leading groups for population and family planning work, which consisted of departments of organization, personnel, popularization, education, culture, labor, civil affairs, health, disciplinary examination, supervision, as well as departments and groups for workers, youth and women, etc. These were actually the local leadership organs for comprehensive handling of family planning work, implementing their authority in leadership, organization, and coordination. In many localities, the leadership group also established rules and systems for comprehensive handling of family planning, confirming and regulating the division of labor among each relevant department's position and responsibility, and these were published in formal documents for operation. We must applaud the issuance of these documents and rules, and the positive role they played in promoting local family planning work at that time. Meanwhile, family planning leadership organizations at various levels resolved many difficult problems in family planning work by means of major leaders being personally on the scene, holding coordination meetings, brief meetings, and associated meetings, etc.

B. The new framework for devoting the whole society to a unified control has been formed initially. Popularization and media departments, which include propagation, education, culture, radio, television, film, and the Party school have all played definite roles in propagating family planning, basic national policy, educating masses of peasants, and changing people's opinions regarding marriage and fertility. Disciplinary and law enforcement departments, including organization, personnel, labor, discipline examination, supervision, public security, law enforcement, procuratorial work and courts, have

assumed certain responsibilities in strictly controlling cadres. This includes their promotion, initiating Party members, employment, discovering and handling excessive births and excessive pregnancies among Party cadres and employees. They also attack people and matters which damage family planning work and forcibly enforcing the policy with "nail families" and "nut families" who have had excessive births; major administrative departments, including industrial and commercial, civil affairs, urban construction, insurance, revenue and expenditures, auditing, etc. have all performed certain functions in supporting family planning work; functional departments including planning, statistics, health, family planning, etc., have all made massive contributions to enforcing the population plan, supervising implementation policies, supply services, adopting birth control measures, etc. So we can say, the framework for handling family plan work in impoverished areas has been initially formed.

C. The single-vote denial system for family planning has been implemented to a certain degree. In order to implement the basic national policy for family planning, some Party and administrative departments in the impoverished areas have implemented the single-vote denial system to a certain degree and scope. For example, in Liuling County, of only 40-some cadres promoted in the past year, 15 had their eligibility cancelled because of excessive births; when the education department was involved in converting compensated volunteer teachers to regular State employees, 18 of these people were turned down for family planning reasons; the land department denied approval to 57 excessive birth counters' land applications for housing construction; the operations management department took back grain rationed land and contracted land from 265 families with excessive births. In addition, some localities combined the single-vote denial system with such matters as small valley management, orchard contracting, extension of credit, competition in submitting tenders, etc. There is no doubt that these steps played a positive role in family planning work in the impoverished areas.

D. Some counties and towns have issued a series of social and economic policies favorable to family planning work. In recent years, in accordance with the Central Party and government's spirit of family planning "decisions", many impoverished areas have put developing the economy and controlling the population in the same position of importance, linked them with the actual situation of the localities, and issued some social and economic policies which were favorable to family planning work. Some examples: in Shelou County, when the small valley management policy was published, the ability to practice family planning was factored in, which resulted in favorable treatment for over 2,000 families; Lang County took as its overall concept "possessing land, this life resource, blocking the big mouth of excessive births", to favor family planning families in contracting for reserve land, uncultivated land, etc., through the means of providing subsidies, while implementing

advance penalties for families with excessive births, before they were allowed to cultivate the land. This program has been obviously successful. Liuling County has linked poverty assistance closely with family planning: when they fixed policy and rules for arranging poverty assistance capital, verified with poverty assistance counters, and taking family planning into consideration, implemented the "six favorites" rule for family planning families; Long County started from "two favorites" angle, to implement a project to provide health care for women and children and compensation for lost service, which was welcomed by the masses; of six towns in Xin County, Yangjipo, Xiaojiawa, and Donghui, favored family planning families in contracting for orchards, making them models for how to get rich quickly by having fewer children. All of these were beneficial to family planning work in the impoverished areas. 2. Major problems

While approving accomplishments and accumulating experiences, we must realize that in the process of comprehensive handling of family planning in impoverished areas, there are still many problems, which can be summarized chiefly as:

A. Some grass-roots Party and government major leaders have a tendency to "pay attention to the economy and ignore family planning work". Some counties and towns' major Party and government leaders are usually busy with projects, applying for capital, conducting negotiations, and operating enterprises, while putting little energy into family planning work. The time they can personally devote to coordinating conflicts between family planning and other departments is even less. In some localities there are individual leaders who don't concern themselves with family planning work at all, which causes family planning work to always be in a backward status. This tendency to "pay attention to the economy and ignore family planning work" is extremely detrimental to population control in the impoverished areas, and deserves immediate attention.

B. The work which related departments do in support of family planning work is stuck in the negative situation of "moving only when pushed". Our investigation disclosed that although there were no obvious "collisions" occurring in family planning work when related departments fixed policies and rules in impoverished areas, there was always a problem of one kind or another in implementing policies. For example, on the issue of promoting cadres, admitting them to Party membership, the family planning situation is not taken into consideration before observation and examination of excessive birth counts; it is only after everything is set that they let the family planning department express any opinions on the matter, which forces the family planning to prepare for it in a rush. When implementing measures designed to encourage the single child family, some departments and work units have often failed to cash in by making the excuse that fund were short. When punishing excessive birth counters, some units deferred dealing with the situation until receiving a communication from the

family planning department, and some units don't even apply the penalties then. When doing work in support of family planning work, some units have partial achievements along with partial failures. For example, it is common for health departments to undertake a considerable number of the "four kinds of operations", but there have also been a great many complications and fake operations. They judged the sex of the embryo by means of B supersonic (wave) which causes a massive amount of psychological confusion, more of a hindrance than a help. The illogical distribution system regionally also is a problem. Since the implementation of the production responsibility system, with the cultivated land divided into two parts—the grain ration land and the responsible contracted land—the former is allocated according to number of family members, and the latter according to number of people in the labor force, but some places allocated lands totally according to number of family members. When allocating disaster relief materials or money, the civil affairs department bases their allocations on number of family members. In this distribution system, more family members means more cultivated land, which strengthens the peasants' desire for early births, multiple births, and having boys. In addition, most departments only worked on the framework of family planning work. When dealing with circulating population, the public security and the industrial and commercial departments completed their work after checking certification regardless of whether it was true or false that the applicants would have multiple births later on. Law enforcement officers often fall back on excuses such as: there are too many procedures, the measures are too complicated, or they lack proof to not strictly enforce the law on "nail families" and "nut families" of excessive births. They cannot deal effectively with cases of abuse or beatings of family planning cadres; they have let the perpetrators go scot-free, with extremely bad effects. When issuing marriage certifications, the civil affair departments have not strictly enforced age limitations, plus there has always been the possibility of "relationship certification" and "friendship certification". They have shown a lack of enthusiasm and energy in encouraging marriages and births at a later age, abandoning "two later" education among young men and women. There have been some departments doing more verbal and written work in family planning, but little of an operational nature. When dealing with Party members and cadres who violate discipline, some disciplinary examination and supervision departments have only discussed the matter but not done anything. Personnel and labor departments did not practice what they announced they would do in employing, accepting new cadres, and in raising wages and promoting employees. Cultural, broadcasting, motion picture, and television departments have very few programs which propagate family planning ideas.

C. The system of encouragements, rewards, and penalties in family planning is an "unhealthy situation". In the impoverished areas, family planning's measures of rewards and penalties hardly work. On the one hand, in

most places, there are no rewards at all, the so-called preferential treatment of having only one child with even a five yuan health care fee for an only child is something that cannot be cashed. However, they would rather spend money on encouraging sterilization for excessive birth parents. On the other hand, it was only symbolic in their collection of social care fees from excessive birth parents. In impoverished areas, it is common to find the phenomena of no penalties, penalty replacement, penalty reduction, penalties which are difficult to collect or not collected at all. Some village cadres adopt the method of using fines instead of ligature in order to operate their sterilization work which actually creates a penalty free situation. Some excessive birth families cannot afford the penalty fee due to family poverty, so village cadres have to let them repair roads, plant trees, and cultivate uncultivated land, and call it penalty replacement. Many villages charge only five or six yuan for a second birth; even for multiple excessive births, they only charge something over 100 yuan, and call it a minor penalty; some excessive birth parents roam about or cause trouble, beyond the reach of village cadres' power; also the latter dare not take forceful measures, and this is called a difficult penalty. Some family planning cadres did not concern themselves with family planning work for long periods of time, which led to a great many excessive births, and formed a protective circle for excessive birth parents: If they punished one of them, it would anger a group of them, so in the end they didn't charge penalties at all. All of these basically had no economically restricting function.

D. There are some "blank points" in family planning work about which no one seems concerned. Early marriages, early births, unmarried couples, the rate of these are quite high in impoverished areas, and is tending to expand. This has a very great effect on family planning work, but there is no department dealing with this—that is one point. The geographical region from which the marriage partners come is extremely small, they do not have a premarital health examination, and there is no guarantee of a woman's "three items" of health care. There are still some individual places where intermarriage of close relatives exists, and there are very serious instances of marriage among retarded people or people with hereditary diseases. These are detrimental to improving population quality—this is the second point. We call these: "blank points".

E. There is a tendency for less and less in the social restriction system which is favorable to family planning. In the new situation of the socialist market economy, some new situations and problems are appearing in the family planning social system. One is that since opening up the grain price, the original urban residence card has lost its original meaning, and the restriction system of a grain residence card which was exploited by family planning departments doesn't exist. Another is that when contracting enterprises, stores, orchards, lands, uncultivated lands, etc., competition depends on how much you can put on the bid without any consideration

of the family planning factor. A third is that strengthening the role of the family has increased the peasants' freedom, so that they think more about their family and individual profits, and less about national and collective profits. This is especially prominent in birth matters. [passage omitted]

AGRICULTURE

Grain Administration Problems After Deregulation

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[Article by Zhou Jiyun (0719 4480 0061), Survey and Statistics Department, Jiangxi Branch, People's Bank: "Problems and Suggestions Stemming From Changes in the Wake of Deregulation of Grain Prices and Dealings"]

[Text] This is the first year of decontrol of grain prices and dealings in Jiangxi Province, and it is also a year of intensification of reform of the grain circulation system. Recently, the People's Bank in Jiangxi Province made a special survey of the effect on agricultural production and the peasants' income following decontrol of grain prices and dealings, what new circumstances and new problems might occur in the procurement, marketing, transportation, and storage grain enterprises may face under the new system, and what effect these new problems may occasion for the bank. Results of the survey show that cancellation of command style plans in agriculture and decontrol of grain markets have played a positive role in stabilizing grain production, increasing the peasants' income, and systematizing grain procurement and marketing. Nevertheless, some problems remain in production, procurement, and marketing.

I. Current Status of Grain Production, Procurement, and Marketing Throughout the Province

With the establishment of a socialist market economy, the former highly centralized system in which the state controlled the allocation of all grain is no longer in keeping with the new situation in rural villages where contract procurement that expresses the deregulation of grain procurement and marketing has come about in response to the times. Surveys everywhere show that the new grain production, procurement, and marketing system exhibits new vitality.

A. Restructuring of agriculture continues, the grain growing area decreasing. With the cancellation of command style planting plans, the peasants enjoy greater authority to make their own production decisions. They are free to plan production rationally on the basis of market supply and demand, as their own circumstances require, growing whatever they like. This has greatly stimulated a restructuring of rural industry. Survey of the farm crop growing area shows a decline in the area planted to grain. Statistics show a 20,469,300 mu area

throughout the province sown to grain in the spring of 1993, 7.8 percent less than in 1992. The percentage of the total crop area planted to grain decreased from 72.8 percent in 1992 to 68.7 percent in 1993. This included a 18,477,000 mu area planted to early rice, 1,956,000 mu less than in 1992. The area planted to superior hybrid grain varieties increased, more high yield, premium quality, and high economic benefit varieties being sown. Survey statistics for nine counties in Ji'an Prefecture show a 12,417 mu increase in the area sown to premium quality early rice, up 3.8 percent from 1992. Premium quality rice was planted in 54.5 percent of the total early rice growing area. In Shangrao Prefecture, 1.5 million mu was planted to premium quality rice. This was 60 percent of the total rice growing area, and a 25 percent over the same period in 1992. The early rice growing area increased from 15 percent in 1991 to 60 percent in 1993. In Jingdezhen city, 165 peasant households planted 1.96 percent less grain in 1993 than in 1992 while increasing the area sown to hybrid varieties 19.44 percent over 1992.

B. Grain marketing has become livelier, the amount of grain in storage "deflating" markedly. Jiangxi is an agricultural province that has suffered from "difficulty selling grain" in recent years. Granaries throughout the province are filled to overflowing, grain storage tying up a large amount of bank credit. Following decontrol of grain sales markets, grain companies seized the opportunity to transform their operating mechanisms in an effort to stimulate sales and develop marketing farther afield, grain marketing becoming livelier in consequence. During the first quarter of 1993, Fuzhou Prefecture marketed 524 million jin of trade grain, 341 million jin of it parity price grain, and 201 million jin of it negotiated price grain. This represented a respective 78.4, 40.4, and 229.3 percent increase over the same period in 1992. As of the end of the first quarter of 1993, the prefecture's granaries contained 1.87 billion jin of grain, 406 million jin less than at the end of 1992. Grain loans decreased by 24.81 million yuan, 40.7 million yuan more than for the same period in 1992. As of the end of May, grain in storage throughout the province decreased by 4.273 billion jin.

C. The price of grain rallied, peasants anticipated income rising, and their interest in growing grain increasing. Following grain market decontrol, prices rallied everywhere. In Nanchang markets, the price of premium grade early crop long grain and premium grade late crop long grain rice increased more than 17 percent. The trend continues strong and the outlook is good. Currently, the early crop market price is 27 yuan per 50 kilograms, and the late crop market price is 33 yuan per 50 kilograms, both exceeding the sum of the floor price and the excess price. In addition, individual grain dealers are numerous, grain marketing channels widening. Competition with the state-owned grain sector is intense, and expectations are that grain prices will continue to rise. Thanks to the upturn in the grain market, grain prices have picked up tremendously and the peasants have received tangible benefits. Comparison of

February 1993 with July and August of 1993 shows a 72 yuan per mu increase in peasant income from the upturn in prices alone. The People's Bank in Fuzhou Prefecture reports that the peasants are happy to grow grain following the upturn in grain prices. Formerly a 420,000 mu reduction in the grain growing area was planned, but only a 380,000 mu reduction occurred.

II. Several Existing Problems

The decontrol of grain prices and grain dealings occurred against a background of a still not very highly developed grain market. Consequently several problems remain in the contract procurement of grain that are manifested in "four difficulties and one low."

A. "Difficulties in implementation" of grain procurement contracts. Ganzhou, Yichun, Fuzhou, and Yingtan prefectures, and Jingdezhen City report that since the deregulation of grain procurement, some peasants are resentful for various reasons. They suppose that now that fixed procurement quotas have been abolished, it is no longer necessary to sign contracts. As of the end of May, contracts signed in the three prefectures and Jingdezhen City numbered 83.5, 76.4, 90, 82.7, and 66.0 percent of the planned number. The reason for this poor showing is that the basis for the "market price" in contract procurement is not clear. The peasants have misgivings. They fear that contracts may not be honored. The contracts that grain departments sign with peasants explicitly provide that when the market price of grain is lower than the floor price, all grain covered by the contract will be purchased from the peasants at the floor price; and when the market price of grain is higher than the ceiling price, all grain covered by the contract will be purchased at the market price. This is a fine means for protecting the peasants' personal welfare, but it is difficult to live up to in practice. Since no document stipulates the time of the market price that is to be used, the market price of what department or jurisdiction, or who is to subsidize the "inversion" that this method pricing causes, disputes are inevitable. Second is favoritism in the issuance of downpayments on procurement, which damages the peasant's interests. The Fuzhou Prefecture People's Bank reports that Nanyue County issued 4.44 million yuan in advance payments during 1993, 2 million of which was in cash, the remaining 2.44 million being issued in the form of "fertilizer" coupons. In Dingxi County, 4.25 million yuan of payments in advance was entirely in the form of supply and marketing cooperative credit on sales. Since they are unable to sell it or the available kinds or quality of the fertilizer is poor, the peasants were very resentful and even created problems. Third government departments interference and deductions are numerous, the peasants' burdens remaining fairly heavy. The Ganzhou Prefecture People's Bank reported that the peasants still must pay more than 90 assessments of various kinds. In order to meet their payment quotas, when governments at all levels sign grain contracts with peasants, they attach a schedule showing taxes and fees to be deducted. After the grain is sold and accounts settled, the peasants obtain almost no cash at

all. A survey conducted in a certain village in Ningdu County showed the contract ordering of 9,400 kilograms of grain, but 10,050 kilograms was needed to offset the payment of various taxes and fees. Obviously, the peasants do not want to sign such contracts.

B. Grain enterprises will face "difficulty buying grain." Grain market decontrol demolished the "monopoly" position of the state-owned grain units. It produced a situation of multiple economic components, multiple ways of doing business, and multiple circulation channels all competing with each other. Because of their own limitations, grain departments may face future procurement difficulties. The first problem is that only 85.7 percent of the planned contract procurement contracts for the province have been concluded. Second, is the dispersal of sources of grain. Not only do collectives and individuals compete for grain, but people from neighboring Fujian, Guangdong, and Zhejiang provinces stream to Jiangxi to buy grain. They go from door to door to buy it; they pay high prices for it; they pay on the spot, and they make no deductions.

C. Difficulties obtaining grain procurement money. Pressures on grassroots level banks have increased. No issuance of I.O.U.'s for grain in 1993 is an important guarantee the state has made to gain the peasants' confidence. However, owing to the high speed growth of investment in fixed assets this year, and the craze for buying stocks and bonds, and for pooling funds, savings have grown only slowly, funds have dispersed in many directions, and banks have trouble finding money to pay out. At the same time, because of local governments' fiscal straits, grain enterprises' serious losses and accounts owing, and the sluggish turnover of bank funds, money is in short supply throughout society and banks find the going difficult. A survey of the Fuzhou Prefecture People's Bank shows that up until 1991, the prefecture government was able to allocate 287 million yuan to subsidize losses in the grain sectors, but now it is unable to provide a cent. Instead it must increase interest payments by 14 million each year. As of the end of 1992, grain enterprises had posted losses of 347 million yuan, an amount equal to the prefecture's fiscal receipts for 1 1/2 years. Since more than 60 percent of the Bank of Agriculture's total credit was tied up in loans for the purchase of agricultural and sideline products, and thus did not turn over rapidly, the banks were operating under an overload. Thus, a situation occurred very easily in which the People's Bank alone had to ensure the funds needed for grain procurement. The Shangrao Prefecture People's Bank reports an abnormal shortage of Bank of Agriculture credit funds in the prefecture at the present time. As of the end of May, it still owned banks at a higher level a net 15.31 million yuan. Meanwhile, more than 780 grassroots level banks throughout the prefecture had only somewhat more than 20 million yuan in People's Bank contingency savings accounts. Some grassroots level branches that even had trouble paying the salaries of enterprise staff members and workers and paying out funds held in savings accounts, had to supply

the money for the procurement of 530 million jin of contract grain as well. Finding the money needed to buy 265,000 dan of cotton and 120,000 dan of tobacco is very difficult. Unless banks at a higher level are able to allocate quickly the funds needed for procurement, the issuance of I.O.U.'s for grain procurement will be virtually unavoidable.

D. Authority over grain is highly centralized; grain marketing is decontrolled but not open making "invigoration difficult." The method of handling the buying and selling of grain under the planning system long prevented grain enterprises from making their own decisions about grain dealings. Today, although the state has deregulated grain prices and dealings, the deregulation applies only to grain sold at negotiated prices, but authority for plan procurement grain and grain that the government uses to regulate the market, which still accounts for the bulk of grain procurement, is still centralized in the hands of the central government and the provincial governments. Grassroots grain agencies still lack the authority to make decisions about this grain. A Xinyu City People's Bank survey shows that as of the end of April the city had 233.01 million kilograms of grain in storage, 118.47 million kilograms of which was being stored for the state, 22.6 million kilograms of which belonged to the State Council for use in regulating grain markets, and 65.53 million kilograms of which was parity price grain. The negotiated price grain over which grain enterprises could really exercise authority amounted to only 26.41 million kilograms, or 11.3 percent of the total. This high centralization of grain authority has resulted not only in swollen granaries, the accumulation of old grain, and serious waste, but it has also dampened the interest in grain dealings of grassroots grain units.

E. Returns from grain farming remain fairly low; the number of peasants going elsewhere to work is on the rise. Abandonment of the land should be a cause for serious concern. A Jingdezhen City People's Bank survey shows a peasant income of 344.20 yuan and expenses of 263.90 yuan per mu of grain for a net income of 80.3 yuan per mu. This net income does not include tractor, water, electricity, and fuel expenses, and various withholdings. After a further deduction for grain retained for their own consumption, the peasants have virtually no cash income. Their income is far lower than what can be made from growing cash crops or leaving the land to work. Because of the relative low returns from the growing of grain, the number of young members of the work force who are leaving the land to work elsewhere has risen sharply. As a result, some farmland has been abandoned and allowed to lie fallow. During 1993, more than 70,000 people in Shangrao, Guangfeng, Boyang, Yugan, and Yongxin counties have left the land to work elsewhere. Ruichang City reports the departure of 38,000 people for jobs elsewhere during 1993, double the 1992 number and approximately 33 percent of the city's rural manpower. Thirty-one of the 51 able-bodied workers in Team 4 at Xiaban Village in the same city have left for jobs elsewhere, leaving to peasants in nearby

townships 320 of the village's 600 mu of farmland, which is unintensively farmed. Dexing City reports that 10 mu of wetlands lie fallow because of the departure of peasants from the city. In several townships and villages, between 20 and 30 percent of paddy fields were not being farmed in May. It is estimated that the city's early paddy crop will be 3 million kilograms less than in 1992. The Jingdezhen Municipal People's Bank reported that 12 percent of the reduction in the early paddy growing area is attributable to growing only a single rather than a double crop.

III. Several Suggestions

Bread is the staff of life. Grain is a strategic commodity that has a bearing on social tranquility and the development of economic stability. It affects the personal well-being of 1 billion Chinese. Further good implementation of grain production and marketing policies, and doing a good job of grain procurement are of major importance in ensuring stable grain production and long and peaceful governance. Some problems remain in the wake of the deregulation of grain prices and grain dealings. All departments concerned should take action and work steadily to solve them.

A. The implementation of all policy measures regarding grain production must be ensured to gain the confidence of the people. First, all possible must be done to make down payments on grain procurement to households so that the peasants will have the funds they need for production. Second is the need to adhere to contracts and to ceiling and floor prices in the procurement of grain, halting the deduction of various fees in grain procurement, allowing money from the sale of grain to reach the peasants' hands. Third is the need to control the steady rise in prices of agricultural means of production, and to lower the cost of seed grain for further increase in peasant interest in growing grain.

B. Completion of grain procurement and marketing system reform to invigorate enterprises. In the sale of grain to regulate markets, provinces should delegate directly to grassroots grain units all plan allocation grain quotas, grain sales outside plan being centrally regulated by the province. This would not only ensure the province's plan procurement, but would also help deregulate and enliven grassroots grain units.

C. Grain units should improve their service attitude, change their work methods, overcome current difficulties, and continue to maintain and develop their roles as principal channels.

D. A good job should continue to be done specialized household administration of grain procurement funds to ensure that adequate funds are available on time, and to prevent their draining away or diversion to other purposes. As an accompaniment to grain circulation system reform, a gradual change should be made from grain procurement funds to a grain regulation fund, setting up

special grain regulation fund administration agencies to replace the specialized household administration of grain procurement funds.

Soybean Market Price Direction Analyzed

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in Chinese 5 Aug 93 p 8

[Text] This year the soybean prices will rise compared with those at the end of last year. The reasons for the increase are as follows: First, the push is from the oil processing industry's demand for soybean material. In recent years, due to feed and feed material industries development, the soybean has become popular in the market, stimulating the irregular development of the oil processing industry. The processing demands at the oil factories far exceed the actual supply of soybean materials. Many oil factories have a serious shortage of supply. In the future the improvement in the people's living standards and the adjustment in their diet structure will inevitably cause the feed and feed materials industry to develop. This trend will require an increased development of the soybean supply and the oil processing industry, causing the already "hungry" oil processing factories to demand more soybean materials. This is unquestionably the main stimulation for the price rise in the soybean market. Second, price differences between the production area and the marketing area. In the selling area the soybean market has always been tight with a large selling amount and high prices. Using Shanghai as an example it can be seen that its annual demand is several hundred thousand tons, and the local selling price is 1.9 yuan per jin which is 0.20-0.30 yuan different from the market selling price in the main producing area of Heilongjiang. This area price difference means that the managing unit would gain profits if they could send the soybeans directly from Heilongjiang. Third, the total opening of the grain market has caused the distribution system to operate smoothly with the soybean transported by train. Thus, it will cause a

conflict between supply and demand. Customers arriving from outside are finding it increasingly difficult to locate soybean resources. The phenomenon of rising prices comes back. As time goes by, the conflict between supply and demand becomes more serious, causing contracted soybean prices to continuously rise. Therefore, since last fall, the procurement purchasing prices of soybeans has always remained high and even risen to 0.8 yuan per jin. However, some economically sound large sellers still don't want to sell the soybeans. The purchasing prices are continuously increasing, and will have a chain effect on the contract prices in the market. Last year was a period of increase for the soybean market price. At the beginning of the year the soybean contract prices to other provinces were 1.30 yuan per jin. Up to the fall grain harvest the highest price was 1.74 yuan per jin. It is projected that this year's soybean market will no longer have this striking increase, but rather a slow increase. The reason is as follows: 1. The resources of the procurement priced soybeans have increased compared with last year. Last year the production of soybeans increased which enlarged the sources for collecting soybeans by tens of thousands of tons. This will moderate the conflicts between supply and demand this year and is the material foundation for reducing the rising price tide. 2. The limitation of the tolerance of consumers in the selling areas. If the soybean market price in 1993 still rises with the speed of 1992, the price in August will increase to over 2 yuan per jin which will exceed the actual consumer tolerance in the selling areas, and restrict the market sales. 3. The adjustment from the imported soybeans. Every year the selling areas need the imported soybeans to adjust the market demands. According to the projection for China's import and export of soybeans from "The Situation and Projection of World Oil Materials" made by the U.S. Department of Agriculture, in 1992 and 1993 China will import 100,000 tons of soybeans which will play a decisive role in moderating the conflicts between supply and demand in our country's soybean selling areas, and stabilize the prices.

PLA Use of Force Against Taiwan Assessed

93CM0502A Hong Kong CHUNG-KUNG HAI-CHUN SHIH-LI [CHINESE COMMUNIST NAVAL FORCES] in Chinese Jun 93 pp 165-74

[Text] Taiwan's Democratic Progressive Party [DPP] is incorporating 'Taiwan independence' into its party program, and moreover continues to conduct coordinated marches and demonstrations. These new trends among 'Taiwan independence' elements are attracting the attention of the CPC, and high-level CPC officials are taking strong positions. If the situation gradually spins out of control, many people say that there is the possibility that Beijing might ultimately use force to resolve the 'Taiwan independence' issue.

Unification of China has been the CPC's intent all along. After 1949, for more than 20 years, the slogan 'We must definitely liberate Taiwan' was shouted; however, out of concern for various factors such as the international situation, military strength, weaponry, public cooperation, and economic strength for support of a war, Beijing was continuously unable to achieve this goal. After 1979, the CPC, using a posture of peace to conduct the war of unification, did not again resurrect the 'Liberate Taiwan' slogan, but rather advocated 'One Country, Two Systems,' allowing the Kuomintang [KMT] to retain its army; however, the CPC did not move toward renouncing the use of military force against Taiwan. CPC senior statesmen all hope to be able to see China unified during their lifetime, and it is reported that Deng Xiaoping has ordered Jiang Zemin to pay attention to 'Taiwan independence' activities and not take them lightly, so if 'Taiwan independence' succeeds, it could become an excuse for the CPC to use military force against Taiwan.

CPC Military Capabilities Reorganized and Improved

In recent years, the PLA has undergone 'reduction and reorganization,' in which troop strength has been reduced somewhat; however, due to the introduction and use of new types of weapons, combat effectiveness has increased.

Development of the PLA Navy is what the leadership is focusing on: Functionalizing nuclear submarines, mass production and constant improvement of guided missile destroyers and escorts, equipping of units with new anti-ship and ship-to-air guided missiles, organizing and establishing a marine corps, and construction of a research platform and military outpost far off the mainland in the Spratly Islands. All of this reflects the CPC's intention to completely develop its navy.

New Trends in the PLA Navy, Army and Air Force

Units are already being equipped with 35-Series conventionally powered torpedo submarines, the successor to the 33-Series submarine (a copy of the Soviet Romeo-class sub). This submarine is slightly larger (2407 tons submerged displacement) than the 33-Series, submerged

speed is slightly faster (18 knots), and can possibly carry onboard Chinese-built Sturgeon-1 or -2 acoustic homing torpedoes.

The successor to the 051-Series (Luda-class) guided missile destroyer has also been built and distributed to units. The new destroyer's displacement is approximately 4,000 tons and it is equipped with eight YJ-8 surface-to-surface guided missiles, a point defense surface-to-air missile, shipboard artillery, 75-Series 12-tube 204 mm anti-submarine depth-charge launching rocket gun, is equipped with a helicopter launch/recovery deck and hangar, and may carry Z-9 helicopters.

The Navy air force possesses H-6D bombers that can carry YJ-6 air-to-surface missiles and Q-5 attack planes that can launch YJ-8 air-to-surface missiles.

Air Force equipment has also been updated, but it is said that, overall, compared to Western nations, it lags 20 years behind. After the sweeping changes in the Soviet Union, Russia is already fulfilling the CPC's early 1991 order for the purchase of Su-27 Flanker heavy-duty fighter aircraft. It is reported that the CPC purchased, and as of early 1992, was accepting delivery of, a total between 28 and 70 Su-27's.

The Army suffered a personnel cutback during the 'reduce and reorganize' campaign, but only a portion of those affected were from important newly-fielded units, so the result was an increase in efficiency; in addition, many units were equipped with technologically advanced weapons. For example, the 79-Series main battle tank, the 85-II main battle tank which is in the midst of production, the 501-Series (copy of the Soviet BMP) infantry fighting vehicle, the 523-Series wheeled armored personnel carrier, many new types of artillery, multiple rocket launchers, and engineering equipment. In particular, the establishment of an Army air corps, along with the rest has greatly enhanced the mobility and combat effectiveness of the ground forces.

New Developments in the Combat Strength of Taiwan's Armed Forces

This past year, Taiwan has concentrated on improving the capability of the weapons and equipment of its armed forces. In particular, on the Navy side, with the technological assistance of the United States, Taiwan has already built its first Perry-class improved model guided missile escort (known in Taiwan as a 'frigate'), purchased 16 Lafayette-class frigates from France (only purchasing the hulls, with the Taiwanese themselves outfitting the vessels with weaponry), purchased mine sweepers from Germany, and in addition, with the recent acquisition of Netherlands-built 'Gailiang Qiyu' (Improved Flagfish)-class submarines and 'Yang' destroyers, the Taiwanese Navy's ability to wage war on the seas has not decreased at all.

Speculation Over the Chinese Communists' Use of Force Against Taiwan

If the Chinese Communists really use force against Taiwan, it is estimated that they will first blockade Taiwan by sea and air. Because the Russian military threat against the Chinese Communists has been greatly lessened, most of the main body of the Chinese navy can be withdrawn to execute the task of blockading Taiwan. How will the United States react to this possibility? This will attract much attention. Perhaps diplomatically the U.S. Congress will impose political and economic sanctions against the Chinese Communists. However, even during the armed confrontations between the two sides of the Taiwan Straits in the 1950s and 1960s, the United States did not interfere by sending troops. It is estimated that today's United States would not interfere either, by sending troops. Once the Chinese Communists send troops, Taiwan can only fight against the blockade single-handedly.

Submarine Mines Are the Weapons That Cause Headaches to Taiwan Military

If compared in the quality of weapons and the qualifications of personnel, the navy and air force of Taiwan are in a slightly advantageous position. In the area of anti-submarine warfare, though the Chinese Communist navy has more than 100 submarines, it is estimated that only about one half of them can be put into use during the initial stage of fighting while the rest will remain in a state of maintenance or refitting. Moreover, among the usable submarines of the Chinese Communist navy, the Type 33 are the mainstay. This kind of submarine emits loud noise which can be easily detected by the other side's anti-submarine sonar. For some of the submarines, the original advantage of "surprise attack" has been lost. Weapons used by Type 33 submarines are torpedoes and mines. The torpedoes' range is 10,000 meters and most of them are direct charge and do not have directional guidance. The mines, however, are the weapons that cause headaches to the other side, and can play a big role in destroying the other side's shipping, and in blockading ports. Taiwan's navy has only four submarines, namely the Sea Dragon, Sea Tiger, Sea Lion, and Seal. But two of them are much improved and they voyage quietly with little noise. In addition, they are equipped with excellent sonar systems and guided torpedoes. Their overall performance is far above the Type 33 submarines, and also superior to the Type 35 submarines. However, it is impossible for only two advanced submarines to cope with the general situation. Before Perry and Lafayette destroyers can be put into service, the Yang destroyer will have to single-handedly shoulder the main naval tasks. Though the destroyer has advanced weapons and equipment, it is too old, and in anti-blockade confrontations it will have to deal with both submarines and numerous warships on the sea. It will not have the capability.

The Chinese Communists' Fighting Force on the Sea

In the area of sea warfare, the Chinese Communists can probably use 12 of their 20 destroyers (while at least two of the rest will patrol the Spratly Islands, two will stay in the Yellow Sea, and the other three Type 7 Anshan class will undertake blockading tasks). Forces that will collaborate with the destroyers will include all the forces of the East Sea Fleet, some of the South Sea Fleet, and a convoy ship of the North Sea Fleet. The total number may reach 20. The Chinese Communists' destroyers and convoy ships have powerful sea warfare capabilities. They are equipped with cruise missiles including the Seagull I-A (HY-IJ on Type 51 ships, and Shangyou I-A SY-IJ on Type 53 Jianghu class ships), and Seagull Attack 8 (YJ-8/C-801 on the Type 53H2 Huangshi frigate). Both the Seagull I-A and the Shangyou I-A belong to the Soviet Minghe [phonetic] missile type. They can easily be subject to intervention and prone to being off-target, or even to being shot down. But "Seagull Attack 8" is similar to the French "Flying Fish," and is the kind of missile that flies over the water and is hard to detect and stop. The warships of the Chinese Communists are very likely to be deployed with Type 21 type Yellow Bee [Huang Feng] missiles. The Chinese Communists possess more than 100 fast attack craft, each equipped with 4 Shangyou missiles. But, due to the short range of this type of ship, the Chinese Communists may use warships to haul fast attack crafts out to the sea to fight when the opportunity arises. This will reinforce the sea combat capability of the Chinese Communists. On the other hand, Taiwan's Yang destroyer group and Mountain convoy ship group will have to face sufficient attacks from many types of missiles, and damages suffered will certainly be enormous.

Contending for Air Domination

The air force of the Chinese Communists lacks long range capabilities and also lacks air refueling capabilities. Therefore, it may not be able to effectively dominate Taiwan's skies, the east coast in particular. So, the Chinese Communists may use submarine mines to blockade Taiwan's east coast, and use the air force to blockade the south, north, and west coasts. The Chinese Communist fighter planes that can endure relatively long flights are the J-8 I (only a few J-8 IIs are in service). But their performance is not very good. In general, the quality of Taiwan pilots is superior to that of the Chinese Communist air force. Furthermore, Taiwan's F-5E fighters presently in service have been developed with the Soviet Mig-21 as the enemy (while the main force of the Chinese Communist fighters is still the J-7, an imitation of the Mig-21, and the J-6, an imitation of the Mig-19). However, the number of fighter planes of the Chinese Communists is far greater than that of Taiwan. Moreover, the production capability of the Chinese Communist aviation industry is far greater than that of Taiwan. If an air war breaks out between the two sides, even if the air force of the Chinese Communists has to sacrifice three to four fighters to destroy one of Taiwan's, by the time Taiwan has lost all of its air force, the

Chinese Communists will still have plenty that can be used. At that time the planes of the Chinese Communists can even join forces against warships and land troops. At that time Taiwan will have no air force at all.

Taiwan Relies on Imports for Raw Materials and Oil, It Is Hard for Its Economic Lifeline To Survive Long-Term Blockading

The native land of Taiwan is short of resources. Most of its raw materials for production and oil are imported. Its economic lifeline also depends upon export trading. If Taiwan is to be blockaded for some time, Taiwan's survival will be threatened, and the military personnel and the ordinary people in Taiwan will waver. Of course, it is extremely unfortunate if a civil war breaks out in a

country. In recent years, relations between the two sides of the Taiwan Straits have been relaxed. There have been frequent exchanges of commerce, investment, and visits. If Mainland China, Taiwan, and Hong Kong can be united, their actual strength and achievements will attract attention world-wide. If a civil war breaks out again between the Kuomintang and the Communists, it will be a big tragedy. The idea of "Taiwan Independence" is absolutely unacceptable and unfeasible. We hope that the Taiwan government will not be keen on Taiwan independence and will resolutely deal with the activities to split national territory by the Democratic Progressive Party. We also hope that Beijing will cherish peace as most important and let a situation continue in which peace develops between the two sides.

NORTHWEST REGION

Mao Zedong's Role In Peacefully Liberating Xinjiang

94CM0049A Urumqi XIYU YANJIU [THE WESTERN REGIONS STUDIES] in Chinese No 3, 15 Sep 93 pp 1-8

[Article by Zhu Peimin (2612 6844 3046) of the Xinjiang Uygur Autonomous Region party school, and responsible editor Qi Qingshun (7871 3237 7311): "Mao Zedong's Role in Peacefully Liberating Xinjiang"]

[Text] Deng Xiaoping says, "Without the outstanding leadership of Comrade Mao Zedong, it is highly unlikely that the Chinese Revolution would have come to fruition even today. Should that be the case, people of all nationalities in China would still be under the reactionary rule of imperialism, feudalism, and bureaucratic capitalism and our party would still be struggling arduously underground." (Footnote 1—*Selected Works of Deng Xiaoping*, 1975-1982, p 138) Deng Xiaoping's words are no exaggeration at all. A piece of vivid and clear evidence is the liberation of the people of all nationalities in Xinjiang.

A Wise Policy Leading to Peaceful Liberation of Xinjiang

Xinjiang has been an inseparable part of the territory of the fatherland since ancient times. In modern times, the various nationalities in Xinjiang had launched repeated indomitable struggles aimed at casting off the yoke of imperialist and feudal rule. Mao Zedong had the utmost concern for the historical destiny of the people of all nationalities in Xinjiang. During the War of Resistance against Japan, the CPC entered into a united front with a local strongman Sheng Shicai [4141 0013 2088]. Over 100 CPC members, including Chen Tanqu [7115 3389 4428] and Mao Zemin [3029 3419 3046] were sent to Xinjiang to work by Mao Zedong and the CPC Central Committee. They did numerous good deeds. Mao Zedong sacrificed a relative for the liberation of the various nationalities in Xinjiang; Mao Zemin, his younger brother, was murdered by Sheng Shicai. Tianshan was washed in blood, but his righteousness was awe-inspiring.

The year 1945 saw the Chinese Revolution triumph on a national scale. People of all nationalities in Xinjiang had been looking forward to liberation with as much eagerness as people hit by a drought longing for clouds. Mao Zedong, profoundly conscious of the wishes of all nationalities in Xinjiang, devised a sensible strategy to bring about its peaceful liberation. During the Second Plenum of the Seventh CPC Central Committee in March 1949, Mao Zedong earnestly urged Wang Zhen [3769 7201] to continue to carry forward the revolutionary spirit of fighting heroically, undeterred by difficulty or hard work, as the latter made preparations to lead troops into Xinjiang and do more good deeds for the people of Xinjiang. After the CPC-KMT peace talks broke down in

late April, the KMT regime's chief representative as well as its northwest military and political commander, Zhang Zhizhong [1728 3112 0022], stayed behind in Beijing. The CPC Central Committee considered using Zhang Zhizhong's connections to bring about the peaceful liberation of Xinjiang. In a telegram to Peng Dehuai [1756 1795 2037] on 28 April, Mao Zedong said, "Solve the northwest problem in a peaceful way. It seems that the possibility is there. Zhang Zhizhong and others have now decided to remain in Peiping and are edging closer to our side. Perhaps we need to consider solving the northwest problem peacefully with his help." (Footnote 2—"Selected Telegrams Relating to the War to Liberate the Great Northwest," from *Party Documents*, 1990, Vol 5)

In early July 1949, Liu Shaoqi [0491 1421 1142] led a CPC delegation in a secret mission to the Soviet Union to discuss with Stalin a number of matters relating to the establishment of a people's republic in China. The Soviets raised the Xinjiang issue in the discussions and gave the Chinese some pointers. As the CPC poised itself to liberate the entire nation, the Soviet leader said, the Americans were cooking up a plot, specifically they were encouraging the five northwest warlords headed by Ma Bufang [7456 2975 5364] to withdraw their units to Xinjiang and set up a "Nation of Islam" in opposition to the Chinese Communists. Should the Americans succeed in their plot, China's civil war would become an international issue, which would complicate things. The Soviet Union therefore proposed that the CPC liberate Xinjiang ahead of time.

The military commission under the CPC Central Committee had earlier decided to "begin working on Xinjiang" next spring. Armed with the information provided by the Soviet Union, and after analyzing the nation's situation comprehensively, the CPC Central Committee decided to tackle the Xinjiang situation earlier. On 6 July, Mao Zedong sent a telegram to Peng Dehuai in which he sketched a blueprint for solving the northwest issue, including the problem in Xinjiang. He wrote, "Besides the military solution, we also must try the political solution. What are your opinions? This is what we think. The northwest is vast in territory and is home to many nationalities. Furthermore, the number of party cadres of the Hui nationality who enjoy public trust are few and far between. The political solution, supplemented by combat, is the only way to solve the problem rapidly, properly, and thoroughly. Now that our troops have gained the upper hand, it will do more good than harm to combine the political solution with the military solution. Specifically, we should organize a military political committee bringing together KMT members who are leaning our way and our own people as an interim transitional body. The KMT people we have in mind are none other than Zhang Zhizhong, Fu Zuoyi [0265 0155 5030], and Deng Baoshan [6772 1405 3790]." "Tao Zhiyue [7118 1492 1471] is now wavering and showing signs of leaning toward a peaceful solution for Xinjiang. We think we should ask Zhang Zhizhong to

put together a Xinjiang military and political committee as an interim body, with himself as chairman and our man (is Wang Zhen going to Xinjiang?) as vice chairman. There should be one other vice chairman, someone from Yili." (Footnote 3—"Selected Telegrams Relating to the War To Liberate the Great Northwest," in *Party Documents*, 1990, Vol 5) On 23 July, Mao Zedong sent a telegram to Peng Dehuai about the offensive against the two Ma's and the issue of sending troops into Xinjiang, saying, "Wrap up the campaign against the Ma's by the first half of August and spend anywhere from half a month to one month for rest and reorganization. March westward in September and occupy Lanzhou, Xining, and the three prefectures of Gan, Liang, and Su in October. It may then be possible to capture Dihua in winter instead of waiting until next spring. Older Brother Chen (referring to the Soviet Union—ed.) is extremely anxious that we take over Xinjiang as soon as possible and may give us every assistance, including dozens of airplanes. Shaoqi, Gao Gang, and Jiaxiang are over there now. As soon as you finalize your military plan, they will consider the question of aid. In my opinion, provided the Pingliang battle wipes out the forces of the two Mas, then the military situation in the northwest would basically cease to be a problem. The occupation of the four provinces of Gansu, Ningxia, Qinghai, and Xinjiang would largely be a question of getting there and taking over, with no major combat involved. With Older Brother Chen's air force giving us assistance, it should not be hard to take over Xinjiang." (Footnote 4—"Selected Telegrams Relating to the War To Liberate the Great Northwest," in *Party Documents*, 1990, Vol 5)

Between 24 July and 11 August, the 1st Field Army of the PLA launched a battle of pursuit and attack in eastern Gansu (the Pingliang battle), tracking down the forces of Ma Bufang and Ma Hongkui [7456 7703 6652] and liberating a vast stretch of land including Pingliang and Tianshui. On 4 August, Mao Zedong sent a telegram to Liu Shaoqi with the following message, "Since the main forces of Hu Zongnan [5170 1350 0589] were annihilated, the two Ma's retreated in defeat again and again. By taking Pingliang, one part of our troops has now consolidated their grip on the plains. The other part would occupy Tianshui within a few days and then move onto Lanzhou, which is expected to fall in late August or early September. We can then make preparations to advance to Xinjiang." (Footnote 5—"CPC Xinjiang Historical Materials Series," *The Peaceful Liberation of Xinjiang*, Xinjiang Renmin Chubanshe, 1990, p 46) On the same day, Peng Dehuai issued a combat order to attack and take over Lanzhou and Xining. A decision was made to concentrate the best troops on the campaign against the forces of Ma Bufang.

To coordinate with the PLA's march into the northwest, the Soviet Union on its own proposed a three-prefecture revolution in Xinjiang to take on the KMT. It suggested that the CPC send somebody to get in touch with the revolutionaries so as to pin down the KMT, which would

help liberate Xinjiang. The CPC Central Committee figured there was not enough time to send somebody from outside the region to the northwest. Nor would it be easy for such a person to get there. So a tentative decision was made to order Deng Liqun [6772 0500 5028], political secretary to the delegation, to leave Moscow for Yining in his capacity as a liaison for the CPC Central Committee. Mao Zedong noted, "The key to solving the Xinjiang issue lies in close cooperation between our party and the Uygur nationality. Working on that basis, we can compel the KMT to give in and put Zhang Zhizhong, Tao Zhiyue, Liu Mengchen [0491 1322 4783] and others at our service. That way we can take over Xinjiang peacefully with a minimum of destruction and reorganize the KMT's forces in an orderly manner. (Footnote 6—"CPC Xinjiang Historical Materials Series: *The Peaceful Liberation of Xinjiang*, Xinjiang Renmin Chubanshe, 1990 ed., p 75) This can be described as the CPC Central Committee's basic policy for solving the Xinjiang issue. On 18 August, Mao Zedong, as chairman of the preparatory committee for the CPPCC, wrote Ahmetjon a letter inviting the three prefectures to send a Xinjiang representative to attend the CPPCC scheduled to be convened shortly. Mao Zedong and the CPC Central Committee thought highly of the revolution in the three prefectures, calling it "part of the democratic revolutionary movement of the Chinese people." "The struggle of the people of the three prefectures of Yili, Tacheng, and Ashan is an essential contribution to the liberation of all Xinjiang and all China." (Footnote 7—"Mao Zedong Manuscripts Since the Founding of the PRC, Vol 1, p 82) He also said, "We consider the nationality army a well-trained people's army of the Uygur nationality. By pinning down 100,000 reactionary KMT troops with its own revolutionary activities in the past few years, it has played a major supporting role for the Chinese Revolution." (Footnote 8—"Mao Zedong Manuscripts Since the Founding of the PRC, Vol 1, p 87)

As the PLA advanced in the northwest and across the nation triumphantly, Tao Zhiyue, commander in chief of the KMT garrison headquarters in Xinjiang; Bao Erhan [7637 1422 3352], chairman of the Xinjiang provisional government; and other patriotic generals and personalities realized that the "KMT is doomed and incapable of further military resistance. So they are inclined toward a peaceful solution and are working hard on its behalf" in an attempt to stage an uprising for peace. (Footnote 9—"CPC Xinjiang Historical Materials Series: *The Peaceful Liberation of Xinjiang*, Xinjiang Renmin Chubanshe, 1990 ed., p 219) In planning such an uprising, however, Tao Zhiyue however had to wage an uphill battle because he had no military forces at his command. At the time some of the KMT troops in Xinjiang were under Ma Bufang (reorganized as the First Mounted Division), but most belonged to Hu Zongnan (reorganized as the 78th Division and 42d Division). Commander Ma Chengxiang [7456 0701 4382] of the 1st Mounted Division, Commander Ye Cheng [0673 2052] of the 78th Division, and Commander Luo Shuren [5012 1859 0086] of the 179th Brigade under the 78th Division

were staunchly in favor of resisting the communists. Ma Chengxiang was unshakable in his loyalty to Ma Bufang before the latter was routed. Nor did Ye Cheng and Luo Shuren vacillate before Hu Zongnan was cornered, so they were hardly open to persuasion by Tao Zhiyue. In plotting his uprising, therefore, Tao Zhiyue had to overcome many complications and move one step at a time.

On 26 August, the PLA stormed and captured Lanzhou. On 5 September, Xining was liberated and the old den in which the Ma family had been entrenched for decades was utterly destroyed. The situation was getting more and more favorable for a peaceful uprising in Xinjiang. Under the pressure of events, Ma Chengxiang, Ye Cheng, and Luo Shuren "all agree to a peaceful transformation. But they balk at reorganization by the people from Yili and would rather go to Jiuquan and wait for reorganization by the PLA." (Footnote 10—*CPC Xinjiang Historical Materials Series: The Peaceful Liberation of Xinjiang*, Xinjiang Renmin Chubanshe, 1990 ed., p 202) Tao Zhiyue and others approached Saveleyev, the Soviet consul general in Dihua (present-day Urumqi), pledging not to put up any resistance to the PLA and asking to get in touch and open negotiations with the CPC through the Soviet Union. On 6 September the troops under Ma Chengxiang and Ye Cheng in Suilai (now Manasi) and Qitai began withdrawing. Because of the historical understanding between nationalities, however, some members of the Hui and Han nationalities fled east following the retreating KMT units, while some members of other minority nationalities escaped to the sub-provincial administrative region. (Footnote 11—*CPC Xinjiang Historical Materials Series: The Peaceful Liberation of Xinjiang*, Xinjiang Renmin Chubanshe, 1990 ed., p 219) Whatever their nationality, the masses were panic-stricken; everybody feared for his own life. Sensing the opportunity, Ma Chengxiang, Ye Cheng, and Luo Shuren vainly tried to launch a counterattack. Xinjiang was in the grip of a crisis.

To hasten and bolster Tao Zhiyue's and Bao Erhan's peaceful uprising, Mao Zedong took a number of important decisions on the Xinjiang issue. First, in view of the strained relationship between Dihua, on the one hand, and the three prefectures, on the other, and considering the panicky mood among the masses, the CPC Central Committee did not adopt the suggestion by the three prefectures of sending minority troops to relieve the retreating KMT units. Moreover, it ordered forces under Tao Zhiyue to "remain on garrison duty in the various regions and counties as usual instead of coming together at a particular spot. Troop reorganization must wait until the PLA enters Xinjiang and relieves each garrison in order to avoid chaos." (Footnote 12—*CPC Xinjiang Historical Materials Series: The Peaceful Liberation of Xinjiang*, Xinjiang Renmin Chubanshe, 1990 ed., p 61) Second, in a meeting with Zhang Zhizhong on 8 September, Mao Zedong told him that the liberation army had decided to enter Xinjiang along two routes, through Lanzhou and Qinghai, respectively and expressed the hope that Zhang Zhizhong would telegram military and

political leaders in Xinjiang to ask them to launch an uprising. Mao Zedong also said that provided Zhang Zhizhong sent them a telegram, the local leaders would surely go along. Zhang Zhizhong agreed readily and sent a telegram to Tao Zhiyue and Bao Erhan on 10 September, followed by another to Tao Zhiyue on the 11th. After receiving his telegram, Tao Zhiyue saw "a ray of hope on the horizon. Everything we do becomes infinitely more powerful. So we can press forward with an indomitable spirit." (Footnote 13—*Brightness Bound: A Historical Record of the 25 September Uprising*, Liaison Department of the Xinjiang Military Region, 1982 mimeograph ed.) Third, Mao Zedong sent a telegram to Peng Dehuai demanding that they concentrate on the march onto Xinjiang. On 10 September, the 1st Field Army of the PLA launched the Hexi battle. Xu Guangda [6079 0342 6671], commander of the 2d Corps, pursued and attacked in a northwesterly direction along the Lanzhou-Xinjiang Highway. Wang Zhen, political commissar cum commander of the 1st Corps, led the 2d Army into Hexi by taking a shortcut through Qinghai and occupied Zhangye on 19 September. On the 20th, the 1st and 2nd Corps joined forces in Zhangye and continued to press onward to Jiuquan, practically knocking on Xinjiang's door. Fourthly, Mao Zedong sent a telegram to Deng Liqun demanding that the latter enter and garrison Dihua as soon as possible. Accompanied by Yesheyev, Soviet vice consul general in Dihua, Deng Liqun arrived in Dihua on 15 September and held talks with Tao Zhiyue and Bao Erhan on 16th. At the meeting he transmitted the instructions of the CPC Central Committee that Tao Zhiyue and Bao Erhan immediately send someone to Lanzhou to discuss with Peng Dehuai finding a peaceful solution for Xinjiang.

Then a minor setback occurred. Alisituofu, the Soviet consul general in Yining, objected to Tao Zhiyue letting Ma Chengxiang and Yi Min [0122 2404] get away and demanded that the CPC Central Committee order Tao Zhiyue to take Ma Chengxiang and other reactionaries into custody. Let them go or detain them? In a telegram to Deng Liqun, Mao Zedong said, "Let bad elements like Ma Chengxiang, Luo Shuren, and Ye Cheng flee by plane. The more the escapees, the better."

On 25 and 26 September, Tao Zhiyue and Bao Erhan issued separate telegrams announcing an uprising. On 28 September, Mao Zedong and Zhu De sent a telegram to Tao Zhiyue, Bao Erhan, and other political and military personnel in Xinjiang involved in the uprising, praising and encouraging them. At the same time, Mao Zedong ordered the PLA's 1st Corps to advance onto Xinjiang. With that peaceful liberation came to Xinjiang, opening a new chapter in its history.

National Unity: Key To Solving Xinjiang Problem

After the CPC and PLA entered and garrisoned Xinjiang, how did they lead the people of all nationalities in Xinjiang to build a new Xinjiang? At the time all trades and industries were in a state of depression and a hundred tasks awaited to be done. Problems abounded.

What was the key to solving the Xinjiang problem? In the opinion of Mao Zedong and the CPC Central Committee: "The key to solving the Xinjiang problem is close cooperation between our party and the Uygur nationality." On 23 October, Mao Zedong again stressed this point in the "Telegram of the CPC Central Committee to Peng Dehuai" drafted by himself, "Only by establishing a brotherly relationship with the Uygur nationality (and other nationalities) can the PLA build a new Xinjiang with people's democracy." (Footnote 14—*Mao Zedong Manuscripts since the Founding of the PRC*, Vol 1, p 88. Zhongyang Wenxian Chubanshe, 1987, p 88) Xinjiang is inhabited by minority nationalities, of which the most important is the Uygur nationality. Thus national unity is critical and is a prerequisite for and a basic guarantee of every other undertaking.

Mao Zedong said, "It would be impossible to totally resolve the nationalities issue and completely isolate the reactionaries among the minority nationalities without a large number of communist cadres from the minority nationalities." (Footnote 15—*Mao Zedong Manuscripts Since the Founding of the PRC*, Vol 1, p 128. Zhongyang Wenxian Chubanshe, 1987) Owing to the longstanding influence of the Soviet Union and because of the fact that some minority members had studied in the Soviet Union and that the struggle had been going on for some time, there were already some advanced communists or sympathizers among the minority nationalities. Earlier they had put together an alliance of communists and then an alliance in defense of peace and democracy. So there already existed a solid base for setting up a communist organization among the minorities in Xinjiang. On 15 October 1949, Seipuddin Aziz submitted his application to join the CPC while attending the CPPCC in Beijing, at the same time conveying the strong desire of other comrades to do likewise. On 23 October, Chairman Mao Zedong wrote this comment on Seipuddin's party membership application, "I endorse Comrade Seipuddin's application to join the party. Have Seipuddin himself take this letter to Peng Dehuai for the latter's safe keeping. After the Xinjiang bureau comes into existence, Comrade Seipuddin can then complete the formalities by filling out a party membership application form and submitting it to the bureau." (Footnote 16—*Mao Zedong Manuscripts Since the Founding of the PRC*, Vol 1, p 86. Zhongyang Wenxian Chubanshe, 1987) In late December 1949, the Xinjiang bureau admitted its first 15 party members with the approval of the CPC Central Committee. For starters, there were Seipuddin Aziz of the Uygur nationality, who became a member on the recommendation of Wang Zhen and Deng Lique; Bao Erhan (Uygur), on the recommendation of Wang Zhen and Xu Liqing [1776 4539 3237]; and Chen Xihua [7115 6932 5478] (Han) and Zhao Delin [6392 1795 2651] (Xibe), on the recommendation of Xu Liqing and Deng Lique. They were followed by 11 other people, who joined the party on the recommendation of members of the bureau. They were Shu Mutong [5289 1970 0681] (Xibe), Maerguofu Yisi-hakefu [7456 1422 2654 1133 0181 2448 0761 4430

1133] (Tatar), Abdullah Mait [7093 0008 6757 3583 0678 3341 4476 5030 2251] (Uygur), Abdullah Zakrof [7093 0008 6757 2139 2089 0344 3157 1133] (Uygur), Anniyaer Jiakulin [1344 1441 1422 6328 1655 2651] (Kazak), Anniyaer Hanbaba [1344 1441 1422 3352 1572 1572] (Uzbek), Yibulayin Tuerdi [0122 0008 2139 7299 0685 1422 0966] (Uygur), Wuyiguer Shayiran [3527 0181 0657 1422 3097 0181 3544] (Uygur), and Abulim-emit Makesutuofu [7093 0008 0441 4717 2251 7456 0344 5685 2094 1133] (Uygur). Each of them submitted an application for examination and review, along with the recommendations of two full party members. Upon direct approval by the Xinjiang bureau, he became a member without going through a period of alternate membership first. These 15 party members represented seven nationalities and 14 of them were members of minority nationalities, including eight Uygurs. In early 1950, the Dihua municipal CPC committee and its counterparts in the various districts and prefectures began admitting party members directly. By late November 1950, 995 people had been accepted as party members, the vast majority of them being key elements of the revolution in the three prefectures and leaders of progressive organizations.

To nurture minority cadres, Mao Zedong at the time demanded that provincial CPC committees in Gansu, Qinghai, Xinjiang, Ningxia, and Shaanxi as well as the local CPC committees of all prefectures inhabited by minorities organize cadre training classes for minorities. He also demanded that Xinjiang turn out within three years about 10,000 minority cadres with a knowledge of policies who were also in close touch with the masses and were loyal to the people's interests. Acting on these demands, the Xinjiang CPC bureau immediately moved to put together local minority cadre training classes, the first one of which began in early April 1950. Addressing the opening ceremony of the first class, Wang Zhen compared such training classes to "factories producing people's cadres." (Footnote 17—Deng Lique's "Xinjiang Memoirs," 17 February 1989, appearing in *Xinjiang Party History Work Correspondence*, 1989, Vol 2) Not only did the Xinjiang CPC bureau organize local cadre training classes for minority nationalities, but party committees in the various regions, prefectures, and counties also got into the act. After their graduation, the trainees participated in social reform on all fronts, tempering themselves and acquiring new skills in the process. Those who performed well were recruited into the party or Communist Youth League. In no time, the first generation of CPC-trained minority cadres emerged and became the backbone of leading groups at all levels. According to statistics as of October 1950, of the 165 commissioners, deputy commissioners, and county chiefs in all of Xinjiang, 107 were minority cadres.

To solve the nationalities problem and achieve national unity, there is no alternative to doing more good deeds for the people of all nationalities. In accordance with Mao Zedong's instruction to the PLA stationed in Xinjiang—the main purpose of its being in Xinjiang was to do more good deeds for the people of various nationalities—and in keeping with its own fine tradition of being

a working force and production force as well as a fighting force, the PLA units successfully suppressed the bandits and put down the rebels, protecting the people's lives and properties and stabilizing social order. (Footnote 18—*Remembering Mao Zedong*, Xinjiang Renmin Chubanshe, 1977, Vol 1, p 498) They took part in local party building and government building, putting an end to the historical oppression and enslavement of the various nationalities and turning them into the true masters of the nation and society. Under the leadership of General Wang Zhen, the PLA stationed in Xinjiang in particular responded to Mao Zedong's call to the military to participate in production by furthering the Yanan spirit and launching a mass production campaign. It was a huge success. Wang Zhen put it in no uncertain terms, "We do not compete with the people for grain. On the contrary, we help the people grow grain. We must demonstrate to the Xinjiang people the superiority of collective labor and the collective economy." (Footnote 19—Wang Zhen, "Production and Construction by the Military in Xinjiang: Principles and Tasks," in *Selected Historical Materials on the Xinjiang Production and Construction Corps*, Vol 1, 16 January 1950) Taking a long-term view, Wang Zhen regarded the use of troops to open up the wasteland as a strategic measure that would develop the border, lessen the burden on the people of all nationalities in Xinjiang, strengthen national unity, and consolidate the new frontier.

The troops participated in production to ease the burden on the people. According to calculations as of January 1950, it took 20,000 tons of grain imported from the Soviet Union in addition to the 20,000 tons shipped from the rest of the province to feed the 193,000 troops stationed in Xinjiang. At 3,000 rubles per ton, the imports cost at least 162 billion yuan (old currency), including freight costs. Because of the troops' involvement in production, they were able to grow their own grain by June and July, eliminating the need for imports and saving the nation a large sum of money. Meanwhile, grain shipments from the rest of the province also were reduced, easing the burden on the various nationalities. Under KMT rule, peasants parted with over 700,000 dan of grain in feudal land taxes and other additional levies. Even more onerous was "going on a public errand." The masses in southern Xinjiang had to transport military provisions to Dihua (now Urumqi) and northern Xinjiang using small donkeys. One round trip could take anywhere from a couple of months to half a year. To the man on the street, "going on a public errand" was something to be dreaded. After liberation, the units became self-sufficient in grain and the peasants turned over just 440,000 dan of grain in 1950. Public errands too were abolished. In other words, while the size of the units was doubled, the burden on the masses was cut by almost one-half. People of all nationalities in Xinjiang realized from this the spirit of the CPC-led people's army of wholeheartedly serving the people, which was totally different from KMT troops oppressing and plundering the people. Mao Zedong had high praise for the military, saying, "Wang Zhen's troops entered Xinjiang and

wasted no time in devoting themselves to careful budgeting. By practicing self-reliance, they produce what they need. They are now solidly on the right track and have won the enthusiastic support of the minority nationalities." (Footnote 20—*Mao Zedong Manuscripts Since the Founding of the Republic*, Vol 3, p 384. Zhongyang Wenxian Chubanshe, 1989)

Advance Steadily and Cautiously, Carry Out Social Reform Step By Step

According to the Marxist view, social reform is indispensable to really solving the nationalities problem. Marx and Engels said, "Once the exploitation of man by man is eliminated, the exploitation of nationality by nationality will also be eliminated." "Once class antagonism within a nation disappears, the hostile relations among nations will also disappear." (Footnote 21—*Selected Works of Marx and Engels*, Renmin Chubanshe, 1972 ed., Vol 1, p 270) What direction then should social reform in minority-inhabited areas follow?

In June 1950, Mao Zedong told the 3d Plenum of the 7th CPC Central Committee, "Social reform in minority-inhabited areas is a matter of utmost importance and must be handled carefully. Under no circumstances can we be impatient. If we get impatient, things may go wrong. If the conditions are not in place, don't reform. When only one condition is in place, don't reform either." "Don't engage in any reform of a mass nature without mass support, without the armed forces of the people, or when there are no cadres of the minority concerned." (Footnote 22—*Selected Works of Mao Zedong*, Vol 5, p 23)

Following the instructions of Mao Zedong and the CPC Central Committee, Xinjiang experimented with rent reduction in 147 villages in agricultural areas across the province between September 1950 and October 1951. Beginning in September 1951, a campaign was launched in all agrarian areas in Xinjiang to reduce rents and denounce local despots. By May 1952, the task of rent reduction and local despot denunciation was accomplished in over 1,500 villages with a combined population of almost 4 million in 58 counties in nine sub-provincial administrative regions, so it was a great success. But reducing rents and denouncing local despots weakened feudal forces without fundamentally changing the feudal land system. Many peasants said, "The landlord class and feudal land system are like a mountain. Local despots and other counter-revolutionaries are the wolves in the mountain. The campaign of reducing rents and denouncing local despots has gotten rid of the pack of wolves, but the mountain is still blocking our advance." (Footnote 23—"Report on Land Reform To Be Carried Out in Agrarian Areas This Winter and Next Spring," by Zhang Bangying [1728 6721 5391], 25 August 1952) This fully shows that the urgency of the peasants' demand for land in the wake of the campaign to reduce rents and denounce local despots.

With Mao Zedong's approval, land reform was carried out in four stages in agrarian areas in Xinjiang between September 1952 and December 1953. The landlord class, which had lain like a dead weight upon the people of all nationalities for thousands of years, was overthrown, feudal land ownership was eradicated, and 3.45 million peasants divided 7.37 million mu of land among themselves. Not only did peasants of all nationalities succeed in casting off the oppression and exploitation of the reactionary Han ruling class, but the oppression and exploitation by feudal forces represented by the landlord class within a nationality also came to an end. Politically and economically the peasants had truly stood up. Peasants of all nationalities were encouraged and elated. At a meeting celebrating the victory of land reform on 23 March 1952, Uyur peasants in Paha Taikeli village in Shufu County wrote a letter—"Dedicated to Mao Zedong"—in the form of a poem to express their respect. In the letter they told of their suffering in the past, described the joy of land reform and standing up, and expressed their profound and unparalleled love for the CPC and Mao Zedong. They wrote, "In celebrating the victory, our village is a more lively and festive scene than it is when we celebrate a festival. Land reform has really done us a world of good. The person who has improved our well-being so much is none other than Savior Mao Zedong. Your ideological splendor shines all over Paha Taikeli." On 30 August, Mao Zedong wrote a letter in reply, "Thank you for the letter you wrote me in March as you celebrated the victory of land reform. You have been liberated from the bondage of feudal land ownership. I hope you will be even more united in response to the 'Be patriotic, harvest bumper crops' slogan, apply yourselves to production, improve your own material lives, and, on that basis, elevate your cultural standard step by step." (Footnote 24—*Selected Correspondence of Mao Zedong*, p 440)

By 1957, socialist transformation involving agriculture, animal husbandry, handicrafts, and private industry and commerce had basically been accomplished in Xinjiang, signaling that Xinjiang had largely abolished the exploitation system and set up a socialist economy. The establishment of a socialist system opened up a brave new world for the political, economic, and cultural development of Xinjiang and for the achievement of equality, mutual aid, unity, cooperation, common prosperity, and happiness among the various nationalities.

During the period of socialist transformation, by and large "our policy was quite cautious and reliable and had strong support among the various minority nationalities." (Footnote 25—*Selected Works of Mao Zedong*, Vol 5, p 277) People of all nationalities in Xinjiang were sincerely thankful to Mao Zedong for the new good life he brought them. Kuerban Tulumu, an elderly man from the Uyur nationality in Hetian prefecture, was determined to go to Beijing riding on a donkey to thank Mao Zedong and present to him the raisins he made and the coarse cloth he wove. For a time this incident was much talked about with fondness and had a profound effect on

the public psychology. It fully revealed the unparalleled love and feelings for Mao Zedong on the part of the people of all nationalities in Xinjiang.

Development and Stability: Two Major Themes In Modern Xinjiang Today

With the completion of the socialist transformation of the private ownership of the means of production and creation of a socialist system, what should be the focus of work in minority-inhabited areas? Or, should we say, what should be the top priority in such work? For a long time this question remained unanswered. Still, Mao Zedong demonstrated his usual theoretical wisdom on this matter as well.

Nineteen sixty-two saw the Yili-Tacheng incident. In April 1962, 60,000 residents in the border area near Yili and Tacheng fled to the Soviet Union. On 29 May, a handful of hooligans went rioting in Yining. The main explanation for the Yili-Tacheng incident was the instigation planned and organized by the Soviet authorities over a number of years. Nevertheless, our failure to make proper or adequate provisions for the livelihood of the people of various nationalities also played an important part. Under the leadership of the CPC Central Committee, the autonomous regional CPC committee and regional people's committee handled this matter correctly and resolutely. To stabilize Xinjiang, the CPC Central Committee ordered the production and construction corps in the Xinjiang Military Region to take over agricultural and pastoral production and other grassroots work left behind by the border people who had fled to the Soviet Union and set up state farms, pastoral areas, tree farms, and mines along the Sino-Soviet border.

The events in Xinjiang set Mao Zedong thinking long and hard. On 27 September 1963, Chairman Mao Zedong issued important instructions on Xinjiang work at an enlarged meeting of the standing committee of the politbureau of the CPC Central Committee. In Xinjiang, he said, "We must first do a good job in economic work to keep agriculture, animal husbandry, and industry growing year after year. The economy must be more prosperous every year than the year before, and the people must live better every year than the year before." "It takes accumulation to pay for socialist construction, but accumulation must not be excessive. The state must procure grain from the peasants, but state purchase quotas must not be too burdensome. We must not go too far with state procurement. Lessen the burden on the people. Improve their lives." "Second, put politics in command. Step up ideological and political education." "Take pains to improve relations among the nationalities. Enhance national unity."

Such were Mao Zedong's ardent expectations and immense concern for the rank-and-file cadres and the people of all nationalities in Xinjiang before he died, pointing up a direction for solving the Xinjiang issue. In fact, Mao Zedong's instructions identified the two major

themes in modern Xinjiang, namely development and stability, which held the key to solving the Xinjiang problem. National unity and social stability are the prerequisites for economic development, without which we would be in no position to do anything. Ideological and political work, therefore, must be intensified and unity among the nationalities must be enhanced. On the other hand, only when production increases year after year, the economy becomes more and more prosperous, and the people's livelihood improves all the time can we really have solid national unity and social stability. Development is the most reliable guarantee of stability. The top priority in Xinjiang is economic development.

This is why. First, Marxism attaches the utmost importance to the development of productive forces. In Marxism, productive forces are seen as the ultimate determining factor of all social development. Socialism, in particular, must devote itself to the development of productive forces. "The consolidation and development of the socialist system must also rely on the liberation and development of productive forces. Thus, putting economic development on the top of the agenda is consistent with the fundamental principle of Marxist historical materialism. Second, it is in line with the basic interests of the people of all nationalities in Xinjiang to develop the economy and improve their lives. Xinjiang is a land of many nationalities. While inequality among the nationalities has been disappearing since the PRC was founded, there is no denying that economic and cultural gaps between minority-inhabited areas and places where the Han people live, between the west and the coastal region, remain very wide. Only a mighty push to develop the economy in minority-inhabited areas can gradually narrow the gaps and truly bring about prosperity for all nationalities and solidify national unity. Third, located on the fatherland's northwest frontier and bordering on five nations, namely the Soviet Union, Mongolia, Afghanistan, Pakistan, and India, Xinjiang occupies a vital strategic position. Only when its production has taken off, its economy is booming, the people's livelihood has improved, and society has achieved stability can we have a strong border defense and demonstrate the superiority of Chinese socialism. In Xinjiang, whether the economy is growing and whether the people's livelihood is improving not only will impact national unity domestically but will also have direct international repercussions. Mao Zedong had said at the time that people of all nationalities in Xinjiang must live better than they did in the KMT era and even better than their counterparts did in the Soviet Union.

Mao Zedong's instructions represented the first time he put forward the criterion of productive forces since 1945 when he made a similar point in "On Coalition Government." He wrote, "When all is said and done, whether the sum total of party and government policies in China and their implementation have been a good thing or bad for the Chinese people, whether they have had major or minor effects will depend on whether they have helped stimulate the development of productive forces of the

Chinese people and by how much, whether they have hampered or liberated productive forces." (Footnote 26—*Selected Works of Mao Zedong*, 2d ed., Vol 3, p 1079) In his instructions, Mao Zedong did more than reiterate the productive forces criterion, he also refined it in a major way by demanding that we not only ask whether productive forces have been developing year after year, but also whether the people have been living a better life each year. The reason is that while the development of productive forces provides a material guarantee for an improved livelihood for the people, it does not automatically improve their living standards. If the people are saddled with a heavier burden because of high accumulation, high procurements, and indiscriminate fee collection, they would not lead a better life even if production is rising and the economy is booming. That Mao Zedong made the improvement of people's lives an important part of the criterion of productive forces, therefore, was both theoretically and practically significant. To improve the people's lives requires easing the burden on them as well as increasing output. Easing the burden on the people essentially means easing the burden on peasants. Without easing the burden on peasants, there can be no sustained developments in agriculture, in animal husbandry, and, ultimately, in industry, and no economic prosperity.

The autonomous regional CPC committee and regional people's committee firmly implemented Mao Zedong's instructions. The autonomous regional CPC committee submitted two documents to the CPC Central Committee: "Report on Strengthening Economic Work in Compliance with Chairman Mao Zedong's Instructions on Xinjiang Work" and "Report on Putting Politics in Command in Compliance with Chairman Mao Zedong's Instructions on Xinjiang Work." These two documents focused on the dual themes of development and stability, respectively, and aside from a number of leftist ideas, were basically correct. As a result, the Xinjiang economy made rapid progress in the 1963-66 period. In the era of taking class struggle as the key link, however, one was not in a position to truly focus on economic work; given the prevailing historical circumstances, Mao Zedong's instructions were not carried through.

Under the theoretical guidance of Deng Xiaoping's thesis of building socialism with Chinese characteristics since the 3d Plenum of the 11th CPC Central Committee, the Uygur Autonomous Regional CPC Committee and people's government have unwaveringly adhered to the basic line of concentrating on economic construction, upholding the four cardinal principles, and sticking with reform and the open policy. The result is a revitalized Xinjiang, a Xinjiang profoundly changed in many aspects. The economy is developing steadily and national unity has been strengthened. Be that as it may, the task of developing the economy and improving the people's livelihood in Xinjiang remains an arduous one. We need to keep up the hard work for a long time to come and Mao Zedong's instructions about development and stability will still be of immense instructive significance.

MOFTEC Regulations on Small-Scale Trade

94CE0154A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 2341,
18 Oct 93 p 29

[Regulations Promulgated by the PRC MOFTEC (Ministry of Foreign Trade and Economic Cooperation) Customs Office: "Regulations To Control Small-Scale Trade With the Taiwan Region"]

[Text] **Article 1** These regulations have been specially drawn up to facilitate commodity exchange between mainland coastal provinces and cities and the Taiwan region, by guiding small-scale private trade across the Taiwan Strait to normal growth.

Article 2 Small-scale trade with the Taiwan Region (abbreviated hereafter as small-scale trade with Taiwan) refers to commodity trade carried out according to the pertinent provisions between residents of the Taiwan Region and designated mainland coastal ports (in Fujian, Guangdong, Zhejiang, Jiangsu, Shandong, and Shanghai).

Article 3 Small-scale trade with Taiwan may be conducted only between residents of the Taiwan Region and mainland companies engaged in small-scale trade with Taiwan.

Taiwanese residents refer to those who hold the pertinent status identification, such as valid and complete Taiwanese fishing licenses and ID cards.

Article 4 Companies engaged in small-scale trade with Taiwan should be approved by responsible foreign trade organs in coastal provinces and cities authorized by the Ministry of Foreign Trade and Economic Relations (abbreviated hereafter as MOFTEC), as well as being registered with the State Administration for Industry and Commerce.

Companies engaged in small-scale trade with Taiwan are permitted to conduct only small-scale trade with the Taiwan Region, not ordinary import-export business.

Article 5 The import-export quota for small-scale trade with Taiwan is \$100,000 per ship per trip.

Article 6 The commodities involved in small-scale trade with Taiwan are limited to those not subject to state franchise, prohibition or import-export restrictions, and those not under import-export quota licensing control.

As to the few commodities under quota licensing control that must be exported, companies engaged in small-scale trade with Taiwan should submit them to the higher-level MOFTEC organ for examination and approval formalities according to the pertinent regulations on ordinary trade and trade with Taiwan and, after approval and consent, apply for and receive export licenses and customs-document releases.

Article 7 Imports involved in small-scale trade with Taiwan are restricted to commodities whose place of

origin is Taiwan. Customs should when necessary check and approve product-origin certificates for imported commodities.

Article 8 Small-scale trade with Taiwan may be carried out only on Taiwanese ships under 100 tons (including 100-ton ships). Taiwanese ships refer to carriers officially registered in the Taiwan region that can carry out normal operations and navigation at sea.

Commodities carried on ships engaged in small-scale trade with Taiwan that are not sold should be returned on the original ship.

Article 9 Small-scale trade with Taiwan may be carried out only in the designated ports.

The ports for small-scale trade with Taiwan will be designated by responsible foreign trade agencies in coastal provinces and cities authorized by MOFTEC, such as local public security, border inspection, customs, communications, and Taiwan affairs.

The authorized responsible foreign trade organs in coastal provinces and cities should promptly report to MOFTEC for the record their locally designated companies and ports involved in small-scale trade with Taiwan, as well as notifying the Customs Office and State Council Taiwan Affairs Office. Unless MOFTEC objects within 30 days of receiving all data on companies and ports involved in small-scale trade with Taiwan, the reported cases will automatically go into effect.

Article 10 Small-scale trade with Taiwan should be conducted mainly in the form of barter, with the prices of all bartered commodities being calculated in U.S. dollars.

Small-scale trade with Taiwan conducted in cash should be settled with foreign currency converted with the approval of the state. All cash earned by both sides should be handled according to the pertinent state foreign-exchange control provisions.

All export-earnings foreign exchange will be retained by companies engaged in small-scale trade with Taiwan.

Article 11 All import-export commodities, ships, and sailors involved in small-scale trade with Taiwan must accept supervision and control by local customs, border inspections, and other joint port-inspection departments, as well as paying taxes and fees per regulation.

No commodities or ships involved in small-scale trade with Taiwan may display symbols that violate the "one China" (the PRC) principle, such as words, flags, insignias, or names.

The articles for personal use carried by individual sailors should be limited to reasonable amounts for personal use. Sailors may not carry articles which under provisions are prohibited entry or exit, and individuals may not use ships to carry articles for others. Equipment, fuel, and materials necessary for navigation by ships that are

brought in should be taken out on the original ship. Such articles may not be involved in commodity exchange.

Commodities not declared to customs or given inspection releases may not be loaded or unloaded.

Article 12 Except as the state provides otherwise, import-export commodities involved in small-scale trade with Taiwan are subject to preferential customs tariffs in line with the "PRC Customs Import-Export Tariffs" and taxation according to the "PRC Product-Tax Regulations" and "PRC Value-Added Tax Regulations," as well as being subject to control by the pertinent customs tax provisions.

Article 13 When companies engaged in small-scale trade with Taiwan violate these regulations, the original organs that examined and approved them can penalize them based on the seriousness of the case by warnings, severe warnings, and revocations of their operating authority. Penalties involving revocations of operating authority should be reported promptly for the record to MOFTEC and the Customs Office.

As to companies and ports involved in small-scale trade with Taiwan that are not qualified for such trade, MOFTEC is authorized to revoke their operating authority.

Violations of customs provisions will be investigated and prosecuted by customs according to the "PRC Customs Law" and pertinent laws and regulations. And such violations that constitute crimes will be turned over to judicial organs for investigation and fixing of criminal liability.

Article 14 The responsible foreign trade organs in provinces and cities engaged in small-scale trade with Taiwan should, prior to the end of January each year, sum up and report to MOFTEC their previous year's small-scale trade with Taiwan.

Article 15 These regulations are subject to MOFTEC and Customs Office interpretation, oversight, and enforcement.

Article 16 These regulations take effect the day on which they are promulgated. Where there are inconsistencies between these regulations and pertinent ones written previously, these regulations will be the standard.

Poll on 'Deteriorating' Local Political Ecology

94CM0090A Taipei TIENHSIA [COMMON WEALTH] in Chinese No 150, 1 Nov 93 pp 68-72, 75

[Article by Chiang Hsueh-ying (1203 7185 1758): "Three Local Evils: Land Speculation, Embezzlement, and the Underworld—Of the 21 Counties and Cities, Which Has the Most Serious Problems?"]

[Excerpts] [Passage omitted] To find out the views held by people throughout the province on the changes in local political culture and ecology, the magazine

TIENHSIA [COMMONWEALTH] conducted a public opinion poll by telephone interviews with voters in Taiwan's 21 counties and cities.

The poll reveals that the public cannot help but feel concerned about the deterioration of local politics, a phenomenon which is spreading and striking down to the roots. Of the numerous local political irregularities, the worst one is the abuse of power by local government officials in buying and reselling land for profit. This problem has reached a serious or very serious extent, according to as many as one-third of the voters. [passage omitted]

In addition, embezzlement, corruption, and the underworld's interference in politics have become so serious that the public cannot remain indifferent. Over one-fifth of the voters (22.5 percent) point out unequivocally that embezzlement and corruption have become a rather serious problem among local governments. Another serious problem, in the opinion of one-fifth of the public (20.2 percent), is interference in politics by the underworld.

In terms of counties and cities, the voters hold that political deterioration is most serious in Taipei, Taoyuan, and Tainan counties. These counties, they say, are the top three as far as embezzlement, corruption and land speculation by local officials are concerned. Among the interviewees in Taoyuan, 73.1 percent point out the seriousness of land speculation by county officials. The same problem is revealed by nearly 70 percent of the interviewees in both Taipei and Tainan counties. Meanwhile, as many as 77.4 percent of the interviewees in Taipei County say that abuse of power by local councilors in buying and reselling land for profit has reached a serious extent.

The problem that government officials and councilors are profiteering from land speculation by taking advantage of their privileges, such as access to land rezoning plans, is not limited to just a few counties and cities. More than one-half of the interviewees in 10 of the province's 21 counties and cities hold that land speculation by local officials and councilors has become a serious problem (counties and cities where land speculation by government officials has reached a serious extent are Taoyuan County, Tainan County, Taipei County, Taichung City, Hsinchu County, Taichung County, Tainan City, Changhua County, Hualien County, and Chia-I City; those with a serious problem of land speculation by councilors are Taipei County, Taichung City, Tainan County, Tainan City, Chia-I City, Taichung County, Pingtung County, Taoyuan County, Hsinchu City, and Keelung City).

In addition to embezzlement and land speculation, the rampancy of the underworld is another cause for public concern. Yunlin County, Chia-I City, and Changhua County are the three places noted for the rampancy of the "underworld." About one-half of the local public say that the underworld's interference in politics is serious.

However, what makes us feel relieved is that despite the worsening situation in most counties and cities, there are some comparatively clean places. In Ilan County, Nantou County, and Hsinchu City, only less than 20 percent of the people say that their local governments have a serious problem of embezzlement and corruption.

As for who should be held responsible for the deteriorating political style, close to one half (45.5 percent) of the voters agree the chief reason for the worsening situation is that political parties need assistance from land-holding financial groups and the underworld in winning the election.

Now that all political parties and candidates are well aware of the voters' discontent with interference in politics by landholding financial groups and the underworld and are trying to break off relations with them, what are the images of the candidates of various parties in the eyes of voters?

According to the poll, though the Kuomintang has put forth the slogan of "opposing embezzlement and ferreting out vote buying" in its election campaign, the voters' greatest concern is still the relations between the Kuomintang candidates and land holding financial groups, considering the fact that it is hard for the Kuomintang, a longtime ruling party, to sever its mutually dependent ties with local political factions and financial groups. Close to 40 percent (37 percent) of the voters express concern about the Kuomintang candidates' relations with land holding financial groups.

Although the Democratic Progressive Party [DPP] has pledged to be corruption-free, still over one-quarter (26.3 percent) of the voters express concern about the relations between the DPP candidates and land holding financial groups. [passage omitted]

While the Kuomintang and DPP candidates, in the voters' eyes, have different degrees of relations with land holding financial groups, the two big parties' relations with the underworld are more or less the same and equally deserve concern according to about one-third of the voters.

Of the three principal parties, the Chinese New Party [CNP], which was founded not long ago, has nominated only a few candidates for the election. The vast majority of the public still take a cautious and reserved attitude toward this party, which styles itself as a party "opposed to embezzlement and with a new clean image." Upwards of 60 percent of the voters say that they are unclear about the CNP candidates' relations with land holding financial groups and the underworld.

Who should be held responsible for the serious political irregularities and the deteriorating social and political style in various localities? Now that all kinds of political irregularities have sprung up, who should be relied upon to improve the local political style? Most people say it is necessary to rely upon "the public themselves." It

appears that the awakening of the local "people's force" has loomed up in our country.

According to the poll, over 30 percent of the people interviewed hold that "the public themselves" should undertake the greatest responsibility for the deteriorating local political style, and they are also most capable of improving the situation. [passage omitted]

Apart from the public, county magistrates and city mayors, usually regarded as the local people's parental officials, should also bear the primary responsibility for the deteriorating local political style (26.9 percent). In some people's opinion, county magistrates and city mayors, who control local resources and are responsible for local development, are the next capable persons to improve the local political style—they are only second to the public in such capability (20.8 percent).

To improve the local political style, voters not only "put demands on themselves," but also place high expectations on the news media which sways public opinion. "Exposure of inside information by the media can help make the people aware of government officials' embezzlement and their abuse of power for land speculation. It can also reeducate the people," says an individual in the interview.

A fact worthy of attention: As far as individuals are concerned, the public believe that, in the central government, President Li, holding the nation's supreme power and noted for his strong leadership, is the most capable person to improve the local political style; his importance in this regard surpasses the premier, the president of the Judicial Yuan, the minister of justice, and the provincial governor. This opinion is, on the one hand, indicative of President Li's prestige among the people. On the other hand, it shows the expectation that the people put on the highest official in the hope that "action at the top will be followed by those below and will set an example for the people." This matter deserves earnest consideration by President Li, who has evoked the people's concern because of his frequent uses of an "illegally established golf court" and the purchase of an expensive villa in Tahsi.

With regard to the concrete steps to begin with in improving the local political style, many people hope that the government will "take down-to-earth action to arrest embezzlers and members of the underworld" (45.2 percent). As for the people themselves, some express the hope to use their ballots to boycott those candidates supported by land holding financial groups and the underworld (36.3 percent).

Ironically, among the four choices of action to improve the political style, the "Sunshine Act," which used to be considered as a very promising approach, is not well supported by the people interviewed. As a matter of fact, in the lists of public servants' assets released separately

of late, the disputable "super-low property value" disclosed by a number of officials has become a topic of people's leisure conversation in our country. The result

of the poll in this respect seems to reflect that the public have not much confidence in the "Sunshine Act." [passage omitted]

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